SD Publication Series
Office of Sustainable Development
Bureau for Africa

Innovative Approaches to Agribusiness Development in Sub-Saharan Africa

Volume 1: Summary, Conclusions, and Cross-Cutting Findings

Final Report

Jim Maxwell
John Holtzman
Abt Associates

Technical Paper No. 78
December 1997

USAID

Productive Sector Growth and Environment Division
Office of Sustainable Development
Bureau for Africa
U.S. Agency for International Development

Innovative Approaches to Agribusiness Development in Sub-Saharan Africa

Volume 1: Summary, Conclusions, and Cross-Cutting Findings

Final Report

Jim Maxwell
John Holtzman
Abt Associates

Technical Paper No. 78
December 1997

Publication services provided by **AMEX International, Inc.**
pursuant to the following USAID contract:

Project Title:	Policy, Analysis, Research, and Technical Support Project
Project Number:	698-0478
Contract Number:	AOT-C-00-96-90066-00

USAID

Contents

Foreword

The creation of the Development Funds for Africa (DFA), and, more recently, funding constraints, have challenged the U.S. Agency for International Development (USAID) to scrutinize vigorously the effectiveness and impact of its development assistance programs in Africa and to make adjustments needed to improve on the record of the past. Structural Adjustment programs have been adopted by many sub-Saharan African countries, albeit reluctantly, and some significant economic development progress has been made. As donor agencies face severe cutbacks and restructuring of their own and as less assistance become available to developing countries, in sub-Saharan Africa and elsewhere, new ways must be found to channel the declining resources to their most effective and productive uses. Donor agencies like USAID, therefore, are increasingly looking at the private sector for new and innovative ways of improving competitiveness, and often to agriculture as the potential catalyst for generating broad based, sustainable economic growth. In the light of the DFA and sub-Saharan African countries' recent development experiences under Structural Adjustment Program, the USAID Africa Bureau's Office of Sustainable Development, Division of Productive Sector Growth and Environment (formerly ARTS/FARA), has been examining the Agency's approach to the agricultural sector.

In January 1991, the Africa Bureau adopted "A Strategic Framework for Promoting Agricultural Marketing and Agribusiness Development in sub-Saharan Africa" to provide analytical guidance to USAID/W, REDSOs, and field missions. The framework suggested that:

(a) while technical and environmental problems must continue to be addressed, a major cause of poor performance of the agricultural sector has been the inefficiency of the market structures and strategies;

(b) improvements in marketing efficiency require a good understanding of the structural arrangements, organization and operating strategies available to those entrepreneurs who constitute the majority of the business entities;

(c) such improvements could have a significant beneficial impact on incomes, foreign exchange earnings, domestic consumption and food security.

To enhance the analytical guidance and technical support that the African Bureau provides to the field, SD/PSGE initiated a series of assessment of donor agencies' innovative agribusiness projects in a number of sub-Saharan Africa countries to develop case studies of agribusiness firms targeted by or benefitting from these projects. The objective of the assessments was to provide the Africa Bureau and Field Missions with an understanding of the role and significance of new, innovative agricultural marketing and agribusiness programs being implemented, and to synthesize a cogent set of lessons learned and their implications for USAID agribusiness project design and implementation.

This document is Volume 1 of a five-volume set presenting the Summary, Conclusions, and Cross-Cutting Findings of the research that was conducted in East Africa (Kenya and Uganda); West Africa (Ghana, Mali, and Senegal); and Southern Africa (Zimbabwe, Mozambique, and Tanzania).

Abt Associates, under the Global Bureau's AMIS II project, conducted the field research and report preparation. The USAID field mission in each country collaborated with PSGE/PSD and Abt Associates, the contractor, and was particularly helpful in providing counsel and direction of the field research and reviewing of the field draft report.

SD/PSGE believes that the findings and recommendations of this report will help the Africa Bureau, field missions, host country governments, and private sector groups make more informed decisions on future project design, implementation, monitoring and evaluation.

David Atwood
Chief, Productive Sector Growth
and Environment Division
Office of Sustainable Development
Africa Bureau
USAID

Acknowledgments

Abt Associates, the AMIS II team, and the authors wish to thank the many individuals who contributed their time and experience to this study. Special thanks is due to USAID Mission personnel in the eight countries covered by this activity. They agreed to participate in the activity, met with field research teams both at the beginning and the end of in-country research, and in many countries provided other types of assistance.

John Holtzman of Abt Associates enhanced the report with his technical review and Jack Hopper did the final edit. Otilia Santos of Abt Associates spent many long hours formatting and finalizing the final report.

Dr. Charles Whyte of AFR/SD/PSGE/PSD is the Innovative Approaches activity manager and was a substantial and ongoing contributor to all phases and aspects of the activity, especially analysis and draft enhancement.

Tom Mehen, the AMIS II project manager for the Global Bureau, contributed significantly to the report by being actively involved in all stages of the project.

The overall Innovative Approaches activity is managed by Jim Maxwell of AMIS II/Cargill Technical Services, who was also the principal analyst and author of most sections of this report. John Holtzman authored the M&E section and the synopses for chapters 4, 5, and 6.

Tim Mooney, AMIS II project manager, and Jerry Martin, Managing Vice President of the ANRA unit of Abt Associates Inc., which is responsible for AMIS II, performed quality assurance work on the final report.

Executive Summary

USAID Missions, and to a lesser extent other donors, are designing and implementing agribusiness programs intended to develop more efficient agricultural product marketing systems. USAID does not yet have effective monitoring and evaluation mechanisms for these recently established programs nor have the lessons learned from these innovative projects been disseminated to Missions.

The Africa Bureau's SD/PSGE/PSD unit therefore requested the Agribusiness and Marketing Improvement Strategies II (AMIS II) project to implement an activity titled "Innovative Approaches to Agribusiness Development in Sub-Sahara Africa." The purpose of this activity was to assess donor agencies' innovative agribusiness projects in a number of Sub-Saharan Africa (SSA) countries and to develop case studies of agribusiness firms targeted by or benefiting from these projects. The objective of the activity is to provide the Africa Bureau and Field Missions with an understanding of the role and significance of new, innovative agricultural marketing and agribusiness programs being implemented, and to synthesize a cogent set of lessons learned and their implications for USAID agribusiness project design and implementation.

The AMIS II project was established to provide USAID with access to private sector commercial expertise that would help improve agribusiness marketing. The major focus of AMIS II is to stimulate *input supply and post harvest-based, private sector led, economic development*. The AMIS II approach is to address agribusiness marketing efficiency and effectiveness improvement, and agribusiness project impact measurement and evaluation, from a *commercial* perspective. This report is therefore more prescriptive and less descriptive than a typical USAID document and is based on the expert judgments of analysts with extensive private sector operating experience.

The methodology used for this activity consisted of the following four basic steps. Step 1: Identify and select Key Focus (apparent high-opportunity) Areas for research based on current USAID interests and their anticipated potential to positively affect agribusiness development. The four Key Focus Areas chosen—based on a literature review, interviews in Washington, and an SSA field survey—were the development of **Non-Traditional Agricultural Exports (NTAE), Agribusiness Associations, Small and Medium (Agribusiness) Enterprises (SME)**, and **Financial Services to Agribusiness**, Step 2: Select projects relevant to activity objectives and the Key Focus Areas that are sufficiently developed to at least *start* yielding lessons learned based on an initial field trip and discussions with Mission and Bureau managers, and select field research countries based on the location of these projects, Step 3: Complete three additional field trips to collect detailed information on the selected projects and do case studies on target beneficiaries, primarily via in-depth interviews with project managers, donor management, and beneficiaries, Step 4: Analyze the information collected, extract lessons learned, and suggest the implications for enhancing the design, implementation, and monitoring and evaluation of USAID agribusiness projects.

The entire *Innovative Approaches* project had two phases. Phase I covered East Africa; Phase II covered West Africa, and Southern Africa, and added three secondary literature studies. *Innovative Approaches* research findings are reported in five separate volumes. Volume 1 (this document), Summary, Conclusions, and Cross-Cutting Findings; Volume 2, Secondary Research Findings, Volume 3 - East Africa (Kenya and Uganda); Volume 4, West Africa (Ghana, Mali, and Senegal); and Volume 5, Southern Africa (Zimbabwe, Mozambique, and Tanzania). Phase I (East Africa) was a separate activity but that preceded Phase II, but it had very similar objectives. Phase II broadened the geographic scope and went into more depth than Phase I on the Key Areas of Focus. Therefore, output from the entire *Innovative Approaches* activity is presented in a single series.

AGRIBUSINESS PROJECT GENERAL FINDINGS

Of the 51 “some relation to agribusiness” projects assessed by the *Innovative Approaches* activity, USAID supports 27 (slightly more than 50 percent). However, the comparatively larger size of USAID projects means that USAID’s dollar value share of “some relationship to agribusiness” projects is much greater than 50 percent. USAID supports 13 of the 18 active “predominant agribusiness focus” projects assessed, but again represents USAID’s share of the dollar value of these projects is much greater. Therefore, USAID is the most important donor supporting agribusiness development in SSA, especially in terms of the dollar value of support.

The area of focus with the largest number of projects is Financial Services, which accounts for 37 percent of the projects identified. However, only a few of these projects are focused on agribusinesses; most support production agriculture or the development of private sector firms in general, although they do have agribusiness firms as clients. The second largest area of focus is SME Development, where only 25 percent of the projects have a predominantly agribusiness focus. In Association Development, agribusiness firms are the target beneficiary for 60 percent of the projects. For NTAE Development, 70 percent of the projects target agribusinesses.

The *significance* of agribusiness development projects is substantial given the vital linkage role of agribusiness between producers and consumers and the potential for NTAEs to increase producer and agribusiness firm income, improve value of output per hectare and unit of labor, use excess labor, and generate foreign exchange. Two important ways to stimulate agribusiness development are through projects that focus on developing agribusiness associations and projects that focus on providing financial services to agribusinesses. Agribusiness associations are important in two ways. First, they can leverage donor resources by forming groups of agribusinesses, which have more “voice” than individual agribusinesses. Second, associations that continue to function after donor support ends will continue to provide services to agribusinesses. Financial services projects are significant in that they attempt to address one of the most important constraints to agribusiness development, lack of access to financing.

The idea that *agribusiness associations* can play an important role in overcoming the dis-economies of scale and raising the “voice” of agribusiness firms is relatively new and therefore innovative. The development of *umbrella associations* as a means to overcome the management and “voice” limitations of small specialized associations is also innovative. It is very difficult for micro and small enterprises (MSEs) to directly participate in NTAEs. A very innovative approach to overcoming this constraint is exemplified by the KESSFA project in Kenya. The association, supported by the Hans Seidel Foundation, organized producers into self-help groups (SHGs), which in turn belong to KESSFA.

Agribusiness related policy enhancement is a traditional area of focus for donors. Most donors try to accomplish this through the conditions precedent associated with their loans/grants for government budget balancing and by supporting advisors within the ministries of agriculture. USAID not only supports agribusiness associations, which can effectively lobby for enabling environment enhancements, but also sponsors unique and innovative projects where local professionals focused on *policy enhancement* are at the same time involved in SME and NTAE firm-level *development*. Support for *venture capital* firms is also an innovative donor approach to private sector development in SSA. USAID and a few other donors have recently developed or adapted *innovative financial instruments* to help overcome the equity and financing problems of SME entrepreneurs.

Most of the projects assessed during this activity are relatively new, which makes it difficult to quantify their impact on private sector investment. Certainly for domestic private sector investment, it would be nearly impossible to establish new agribusinesses or successfully develop them without the projects, since the projects are often the only source of the services needed to do so. This is especially true for SMEs, NTAE development, and financial services to

MSE agribusinesses. The donor-supported NTAE development projects assessed by this activity are playing a *significant* role in overcoming the constraints to and capitalizing on the opportunities for vibrant NTAE industries; as indicated by the success of NTAE projects in Kenya (KEDS), Uganda (ANEPP), Ghana (TIP), and Zimbabwe (Mash East).

The projects assessed during this activity, although in their early stages of development, have for the most part successfully stimulated the formation and expansion of agribusinesses. This has resulted in additional employment in the firms themselves, as well as additional employment in companies that provide them services and the producers that supply them inputs. Food security within a country is enhanced by a fully functional agribusiness sector that efficiently and effectively translates the food and beverage needs and desires of the population back to producers and thus uses the vast majority of the right kind and timing of their production to fulfill consumers' needs. Therefore, donor-supported projects that stimulate agribusiness development can and will lead to enhanced food security.

While the projects assessed did not focus on WID-specific issues, especially non-USAID projects, all projects were gender neutral, and encouraged and supported female entrepreneurs.

MONITORING AND EVALUATION FINDINGS

The review of innovative approaches to agribusiness development in LAC and Asia, did not focus on the quality and effectiveness of monitoring and evaluating (M&E) on USAID and other donor projects in those regions. Impact evaluation that is done is usually macro (sectoral or subsectoral) and broad-gauged. There has been little attempt to assess the impact of agribusiness projects on *assisted* firms, using firm-level performance measures. USAID M&E is in an early stage of development, but is more advanced than that of most donors. Substantial opportunity exists for enhancing USAID M&E, especially as related to direct and indirect impact by project component and type of beneficiary, and benefit versus cost analysis.

In general, USAID places more emphasis on formal M&E systems than do other donors. The portion of USAID's support that is used to improve a country's balance of payments is coordinated with other donors and the World Bank and USAID uses progress on conditions precedent as an impact measurement. For other donor projects and project-related activities, it is unusual to use macroeconomic measurements to assess the impact. There are two primary reasons for this: (1) other donors tend to disburse their assistance through local government entities, whose performance they cannot control, and (2) other donors' activities are most often broken down into individual targeted projects or activities that have their own set of objectives. Progress on these objectives is usually assessed on at least an annual basis, but not necessarily on the basis of extensive quantitative measurements. Considerations such as the satisfaction level of the beneficiaries and government entities involved seem to play an important role in these assessments.

Assisted firms need to be monitored and evaluated closely as a precondition for project assistance. Without their cooperation, trying to quantify the impact of project activities is nearly impossible. AMIS II recommends that USAID-funded agribusiness projects insist that assisted firms, trade associations, and finance intermediaries agree to supply key financial and economic indicators on a regular basis. By carrying out detailed periodic interviews, M&E analysts will be conducting ongoing case studies.

USAID needs to strengthen M&E of the financial performance of assisted financial intermediaries in SSA. Key considerations include the projects' (and the intermediaries') financial condition, the range of services offered and whether they are expanding to meet clients' needs, the intermediaries' long-term sustainability, and their ability to adapt and innovate to meet the needs of old and new clients. USAID should commission independent surveys of the business performance of clients of financial institutions and "customer" satisfaction surveys of members of trade associations.

M&E for SME development projects should focus on the financial success of clients, the number of clients assisted, the employment generated, and how well the project is able to meet its own agreed budgets. The M&E of financial services projects must be very commercially oriented (i.e., focused on asset growth and ROI/ROA). M&E for association development projects should focus on the success (as defined by members) and progress toward sustainability of supported associations. The results of an annual membership satisfaction survey, conducted by a third party, should be one of the most important criteria for continued donor support of an association. M&E for NTAE development projects should focus on the success of firms, associations, or other entities supported. National export statistics, which are often used to M&E NTAE projects, are frequently not a highly relevant measurement of project performance.

Key Area of Focus Findings

Small and Medium Enterprise Development

There is a strong need for agribusiness SME development in SSA, especially to support *indigenous* entrepreneurs. Agriculture accounts for a very large proportion of both employment and GDP in all the countries studied; therefore, agribusinesses' role in serving and stimulating production agriculture is essential. SMEs usually represent the largest number of agribusinesses in a developing country; therefore their success is important to the livelihood of a large portion of the population in most developing countries'. While there is a strong need to increase the role of *indigenous* people in the economies of their countries, it will be difficult for them to do so without outside (donor) help, given local government budget problems. The fact that most SMEs operate in the informal sector should not inhibit donors from providing them with much-needed assistance.

There are quite a few donor programs in SSA for supporting commercial SMEs. However, none offer the full range of services required by a fledgling SME, none focus on agribusiness, and none operate outside the capital cities. Therefore, their impact on agribusiness and agriculture is minimal.

If SME entrepreneurs must work with several different institutions to obtain different business support services, such as financing, technical assistance, and managerial advice, the burden on them is much greater, paperwork much more complicated, and coordination problems much more likely than it would be if they could receive those services from one source. Integrated support to a wide range of agribusiness SMEs, including firms that serve domestic, regional, and international markets, can be provided by several different types of intermediary organizations, but Agribusiness Service Centers (ASCs) seem to have many advantages over the other options.

The most significant firm-level constraints SMEs face are a shortage of modern management skills, particularly in marketing and cost control, and the lack of equity/collateral, especially in rural areas, where valuation is difficult and there are land tenure problems. Weak management skills are usually a greater constraint than technical skill shortages and make it very difficult for entrepreneurs to manage their businesses in a way that enables repayment of financing.

Formation of self-help groups (SHGs) is a useful way to leverage development resources aimed at SMEs, and in many instances, may be the best way to serve the needs of small agribusinesses. Another way to use SHGs is to link them with large enterprises that can provide inputs, technical assistance, and markets. However, to be successful, this latter type of activity requires intensive, hands-on management assistance by donors.

The design of donor-supported agribusiness SME development projects should focus on (1) building on and/or collaborating with *established* private sector development entities, (2) facilitating large processor to SME linkage projects, (3) overcoming the lack of entrepreneurial orientation and "knowledge of business" gap, and (4) selecting and using of NGOs and other appropriate partners.

Therefore, donor activities designed to support and stimulate the development of SMEs should consider the following:

- An integrated services approach. This necessitates an extensive network of well-established alliance partners who can provide the broad range of services needed.

- Since an integrated approach is resource-intensive, it requires significant leveraging. This would include: involving several donors who can contribute financial as well as design, implementation, technical, and managerial assistance; extensive private sector input in both project design and implementation; and development of local consultants to the point where they can competently provide services (particularly as related to marketing and cost control) on an ongoing basis.
- SME entrepreneurs need significant help to develop a highly functional business plan and to use that plan as the basis for an application for financing. Therefore this component should be part of the services package offered.
- The project must provide close monitoring of and proper mentoring for clients, especially *after* financial assistance has been provided.
- It is unlikely that an entity providing services to start-up, micro, and small enterprises can ever become self-supporting.

Financial Services to Agribusiness

Lack of access to financing is widely believed to be the greatest *initial* constraint to business formation and expansion, for all but the largest agribusiness firms.

The major constraints to agribusiness lending by financial institutions are the shortage of commercially viable projects and poor loan and investment "packaging" by the borrower, *not* a shortage of available funds. Lack of entrepreneur experience and equity, inadequate bookkeeping practices, and the lack of know-how to develop satisfactory financing proposals and the associated business plans are major constraints to financing agribusiness SME ventures, and therefore limit the ability of donors to disburse development finance to these firms.

The lack of debt financing and entrepreneur equity are both important constraints to the success of *venture capital* projects. Other important factors that limit a venture capital fund's ability to invest its available resources include entrepreneurs' lack of familiarity and comfort with venture capital, inadequate record keeping practices, the unavailability of exit mechanisms, and restrictions on client size, business sector, or owner nationality. *High-quality* management and support from a donor who is *experienced* in business development and finance in developing countries will make a major contribution to the success of a venture capital project. New venture capital projects should investigate the experience of other USAID venture capital projects, especially in SSA, before finalizing a design.

Loans granted through state-owned banks, even when commercially oriented entities do the feasibility work, are often not repaid due to borrower and bank management *attitude problems* regarding the need to repay government-related debt. This is caused by weak repayment management in the past.

Financial services by themselves will not stimulate economic development as successfully as *integrated* financial, managerial, and technical assistance services. Therefore, while reasonable availability of funds will stimulate micro and SME *formation*, TA and management assistance will likely be needed for them to be successful.

Donor activities designed to support and stimulate the development of agribusiness financial services should include the following components:

- Training for loan officers to help them assess financing applications on bases other than the borrowers balance sheet or collateral.
- Assistance for borrowers to develop viable business plans and financing applications based on those plans, and ways to enhance post-financing follow-up and support. This will mean providing management and technical services to clients, in addition to financing.
- Creative and flexible products such as sweat and in-kind equity, income notes, convertible debt, and such.
- Group lending for small borrowers.

- Use of *existing* successful institutions where possible.
- Providing multi donor support due to the minimum size project needed to afford top-quality management. Consider giving managers responsibility for multiple projects/funds in one country or regional projects/funds as another means of leveraging these expensive individuals.

Association Development

Agribusiness association development in Sub-Saharan Africa offers considerable positive impact potential because associations can be an effective and efficient means to help indigenous, small producers and SMEs to help themselves, and a leveraged way to support the development of high-opportunity subsectors. Successful associations will eventually become self-supporting.

The main constraints to agribusiness association development success are the legacy of former governments' control of cooperatives, the tendency for producer-based associations to be concerned only with production issues, the low level of training (especially financial) and part-time status of most association management, members' lack of finance and financial viability, and difficulties association management has in determining members' priority needs and in developing programs to effectively serve their *highest* priority needs.

Post-project sustainability of agribusiness associations is a major problem. The charter and objectives of supported associations are often too ambitious which leads to suboptimal performance. In a developing country or transitional economy that lacks a history of association formation and continuity, *longer term* nurturing of associations may be required in order to achieve agribusiness project objectives. Therefore, while association development can be an important contributor to agribusiness development, strengthening of SSA business and trade associations will be a long-term process.

Well-focused and *well-managed* associations can bridge the gap between small farmers/agribusiness firms and the complexities of NTAE markets. SHGs of small farmers and/or entrepreneurs, who in turn belong to a donor-assisted association, are a good way to leverage scarce donor TA and financial resources.

Association organizers need to be aware that there are trade-offs with regard to size and scope of associations. "Voice"—the impact that an association can have on policy enhancement—usually requires a large membership, but an association can more effectively provide services to its members when it has a narrow focus, such as on flower exporting.

Donor activities designed to support and stimulate the development of agribusiness associations should consider including the following components:

- Provide assistance to help establish the priority needs of members and potential members and to develop programs that serve a limited number of their *highest* priority needs.
- Help train association management in how to manage a sustainable association with a focus on sources and uses of funds, maintaining positive member relations, and effective lobbying.
- Encourage a vertically integrated structure that includes producers, packers/processors, exporters, and others, to increase the number of members and enable better industry coordination.
- Consider a multi layer structure wherein small groups of producers form SHGs, which in turn belong to a subsector association, which in turn belongs to a sector association. This will enable donors to support the umbrella association, which can in turn support and develop the levels below it, afford professional management, and have a greater "voice" due to the large number of members it represents.
- Evaluate group lending and market information for high-priority service possibilities (as defined by members), especially for associations composed of SMEs. However, group lending must be very carefully managed.

NON-TRADITIONAL AGRICULTURAL EXPORT DEVELOPMENT

There is significant potential for NTAE development in the countries included in this research. Opportunities in developed country (primarily the EU), second-tier (e.g., Singapore and the Middle East), and regional markets are currently being developed successfully by SSA-based firms. While developed country markets are *very* competitive, some of the other markets are less complex and therefore more accessible to smaller firms. NTAE promotion also represents an opportunity for donors to stimulate broad-based economic development and increase the access of the indigenous population to the commercial economy because *under the right conditions*, indigenous smallholders and SMEs can participate successfully.

The major constraints to NTAE development in the countries studied are (1) the shortage of working capital (caused by a lack of entrepreneurial equity/collateral and very few sources of trade finance); (2) poor infrastructure (especially roads, airports, and communications); and (3) poor organization (the lack of a clear understanding of the highest priority opportunities—products and markets—and the optimal strategies and structures for capitalizing on these opportunities).

Promotion of NTAE and TA for upgrading production and export marketing management will not by themselves result in NTAE success because lack of financing will still be a constraint. The addition of a credit fund to existing NTAE development projects (e.g., TIP in Ghana, APEX in Mali, and KEDS in Kenya) would enhance the projects' effectiveness and would help USAID meet its objectives to promote NTAE and to increase the value-added of specific subsectors. Support to SMEs for NTAE development requires considerable, diversified, and ongoing hands-on assistance. Therefore, there is a need for an institution that offers *integrated* services (finance, TA, and management) and is "networked" into the local industry (i.e., has the support of the larger exporting firms).

Two very important enabling environment components that NTAE projects should focus on are: (i) transportation, both domestic roads and ports/airports as well as freight rates, especially air freight, which can account for up to 30–40 percent of the landed price; and (2) optimization and proper enforcement of customs activities, including quick clearance of outbound goods and low/no duties on imported raw materials that are reexported.

NTAE projects with SMEs as the primary beneficiaries should include services that help SMEs *join together* to: share expensive fixed assets; jointly purchase inputs; consolidate output, at least at the local level; establish linkages with larger exporters to market their output; and negotiate subcontractor or outgrower relationships, especially for lower technology/higher labor requirement products.

Successful *SME* export horticulture development requires: a large number of well-organized producers in a geographically limited area, usually with access to irrigation; cold storage units at collection points to remove field heat and store the produce and producer-owned transport/collection system; readily available, qualified TA, primarily as related to quality control; access to a good communications system; a focus on higher value products; shared production-related equipment such as sprayers; and access to the local fresh or processed market for off-grade product and overproduction.

Through its NTAE projects, USAID needs to heighten exporters' and prospective exporters' understanding of EU market requirements and the particular demands of the emerging mega-importers/buyers who supply supermarket chains and other institutional customers.

The greatest impact from scarce USAID resources will be achieved when NTAE projects focus support on a few high-potential, medium-size firms participating in high-potential product lines, as determined by subsector market opportunity assessments. An operating constraints analysis will help identify and prioritize NTAE development constraints for exporting firms. Guidelines need to be developed for these studies.

Promoting intra regional NTAE trade will require taking a hard look at real trade opportunities among SSA countries, rigorously evaluating the current performance of regional trading enterprises and the basis for that performance, and selecting a few high-opportunity commodities/enterprises for intensive, direct promotion.

USAID should continue to provide leadership among donors in supporting NTAE development since such projects can generate greater foreign exchange earnings; increase employment in production, handling, and processing of labor-intensive products; and achieve a better return on land and labor than coarse grains, legumes, and other basic foodstuffs.

Therefore, donor activities designed to support and stimulate the development of NTAEs should consider including the following components:

- NTAE *associations* can be very helpful by enabling scale economies for providing services such as technical assistance and in some cases implementing transactions (e.g., shared equipment, provision of inputs, and consolidation and marketing of output) and increasing industry "voice" to enhance the enabling environment.
- Both commercial (smaller firm to larger firm) and project (project management to larger firm) *linkages* with executives of successful, larger NTAE companies will help develop SME managerial and business capabilities and assist project management to better understand the opportunities and challenges in the business.
- An NTAE project needs to *integrate* financial (debt and equity), technical, and managerial services into a one-stop-shop concept that can address a firm's constraints in an orchestrated manner. Otherwise the entrepreneur will have to go to several different sources, each with different requirements; and/or one missing service will result in the others being less than optimally effective.
- Projects must identify and target the *highest opportunity subsectors* (in some cases [e.g., in Mozambique and Tanzania], which may involve rehabilitation or forward integration of an old/existing export business) and markets and pay particular attention to integrating *indigenous* firms into the industry.

GENERAL RECOMMENDATIONS

Identifying and developing effective and efficient *intermediary organizations* (e.g., associations, food and agribusiness development centers, or well-managed NGOs/PVOs) is essential for leveraging scarce project resources.

There is clearly a pressing need, however, to support SME expansion and diversification more efficiently and effectively. SMEs are very much the "missing middle" in private enterprise promotion programs in developing countries, particularly in SSA. Agribusiness Service Centers (ASCs) are one innovative vehicle for rigorously screening and *directly* assisting SMEs in the agribusiness system. Because the agribusiness system accounts for a significant proportion of GDP in most developing countries, creating ASCs—as opposed to small business development centers (which attempt to satisfy all comers)—is a rational, high-impact use of scarce resources.

A good subsector prioritization model based on market potential, comparative advantage, opportunities and constraints analysis, and availability/interest of human resources is needed very early in commercial projects. This thorough analysis is needed to prioritize the subsectors of primary interest before decisions are made about donor support to commercial enterprises in a given agribusiness subsector.

Private sector advisors, both expatriate and local, should be used more extensively by USAID in the design and monitoring of agribusiness development projects because they have a much better perspective on the challenges and opportunities faced by the private sector than do government employees. Direct, local business experience is likewise important in helping to prioritize and pursue policy reform issues related to private sector development.

Agribusiness development projects must be managed by individuals with considerable *successful* commercial agribusiness experience. Effective staffing is absolutely essential to a project's success. Professional management and a strong interest in localization of most operating positions will facilitate agribusiness projects to get off to a solid start. Top-down counterpart and local staffing will enable more local input into design refinements and lower level staff selection. Africans from other countries may be able to supplement the supply of local agribusiness managers while locals are trained and gain more experience. All expatriate positions must have a local counterpart.

Semiannual project review forums (½ day with a broad group of beneficiaries, local government officials, and private sector representatives; ½ day with the project team) can be used to coordinate project activities, improve their effectiveness, and enhance a feeling of local "ownership" of the project. *Active* steering committees, with extensive private sector participation, must play a strong role in a project to ensure success at all stages of implementation.

Government approval and support for agribusiness projects are essential, but implementation should be independent of direct government involvement because the private sector generally prefers an "arms length" relationship with government; and government involvement in implementation will slow progress.

Multi donor agribusiness development projects (especially if focused on financing) should be investigated and pursued, especially where other donor participants are responsible for a specific area where they have extensive experience. Also, *some* PVOs may be able to move beyond production agriculture and social development into serious economic development, and should therefore be considered as partners for agribusiness development projects, especially in rural areas.

A significant focus of donor's agribusiness project activities in SSA should be to support the economic integration of Republic of South Africa (RSA) firms into southern Africa. RSA food and beverage firms have a strong interest in expanding production and processing of food and agribusiness products to areas north of the Limpopo which have more rainfall, available land, and inexpensive labor than in the RSA. These firms are therefore actively seeking alliances in Malawi, Zambia, northern Zimbabwe, and central and northern Mozambique. The target market for the output of these alliances is both the RSA market and the EU. The diminishing role of parastatals and decreasing constraints on cross-border trade in southern Africa will help these alliances succeed. These same factors however also function to reduce the safety net and protection of ISME producers in southern Africa. Therefore, donor programs which support the formation and operation of alliances between RSA and southern Africa agribusinesses, and, help develop agribusinesses to supply inputs to and market the output of ISME producers have great potential.

Key Issues

This section summarizes key issues identified by this activity that, if resolved, would make a significant positive contribution to agribusiness development in SSA.

How can the potential for outgrower/contract grower schemes be optimized, especially schemes that have successfully reached out to both small farmers and women? How can the success, future prospects, and specific agreements of apparently functional outgrower and subcontractor schemes (e.g., in the Arusha/Moshi area in Tanzania, at Mashonaland East in Zimbabwe, and the silk and vanilla projects in Uganda) be further assessed? The specific success criteria and methods for developing sustainable outgrower schemes, especially for specialty NTAEs, need to be determined.

How can financial, managerial, and technical services be most effectively and efficiently integrated into a single entity that is targeted on a specific high-opportunity subsector or firm type? How can a broad base of financial, technical, political, and "network" support be developed for such an entity?

Where is the highest opportunity location?

Should or can micro and small enterprise (MSE) support institutions become self-financing? Donors need to assess the potential financial payback and likely term of MSE projects and determine if a reasonable payback can be achieved. If not, what other M&E criteria should be developed to assess these types of projects?

Based on USAID experience worldwide, how can association services be most effectively scaled to association resources? Which activities should receive funding priority and under what conditions? How much funding (i.e., what proportion of total association funds) should USAID provide to weak or newly created associations? What sources of funding have been developed beyond dues and donor support?

What is the role for "commercial" associations that sell members inputs and market their output (especially for MSEs)? Can commercial associations be used to improve input supply and output marketing, replacing outmoded state or cooperative channels? An investigation should be conducted on how commercial associations can be developed and supported to function as middlemen between MSE producers and exporters, thus enabling some economies of scale and "power" balancing.

How does a project focus on NTAEs but retain the flexibility to apply similar TA to the much larger domestic and regional markets, especially for firms that will eventually become exporters?

Key Agribusiness Project Design and Implementation Recommendations

The following recommendations are offered based on the research and analysis completed for this activity. They are believed to be highly relevant to SSA agribusiness development needs, and represent the ways in which the findings of the activity can be applied to SSA agribusiness development constraints and opportunities. The recommendations are roughly categorized into Programming Related and Implementation Related classifications.

Programming Related

1. **Establish project design and implementation alliances to increase USAID's "bang-for-buck."** This can be accomplished through multi donor projects, by partnering with selected NGOs/ PVOs, by cooperating with appropriate government entities (e.g., development banks and export promotion agencies), and by working in close concert with relevant private sector firms or organizations.
2. **Increase the involvement of successful private sector managers in project design and implementation.** This can be accomplished via ongoing private sector development and project advisory committees, periodic project review meetings with key private sector representatives, and other similar arrangements.
3. **Enhance the sustainability of interventions via a heavy focus on developing local capacity during the implementation of projects.** The chances for intervention sustainability will be improved by developing - viable associations; pragmatic and highly practical local technical and managerial assistance and consulting capabilities; networks that tap into international technical, marketing, and managerial support; financial services providers that have an understanding of business and know how to use references as an important basis for loan screening; group lending schemes that have a significant savings component; and training institutions that provide useful, highly applicable, and commercially focused training and management courses, especially those focused on enhancing operating capabilities, including such skills as business strategy and planning, financial management, bookkeeping, cost control, and marketing.
4. **Identify and focus on high-opportunity subsectors.** This should be based on formal assessments and include the identification of medium-size firms with some experience in the selected subsectors. Medium size firms represent the best opportunity to positively impact employment, exports and agribusiness development. Firms with some experience are much easier to take to the next level.
5. **Implement cost/benefit-focused monitoring and evaluation on projects.** This should be applied down to the level of individual project com-

ponents. Include in the analysis qualitative input from interested parties and beneficiaries (e.g., member/client satisfaction measurement). Assess the progress of assisted firms as well as the macro impact.

6. **Establish a feedback system for all ongoing agribusiness projects and activities.** This would facilitate dissemination, throughout USAID and the agribusiness development community, of lessons learned and implications and could take the form of an on-line bulletin board with monthly reports on specific projects, and a data bank, perhaps on-line, where current project reports, evaluations, and impact assessments are maintained and available.

7. **Each USAID funded activity and project should have a standard requirement to identify and report success stories.** Proving the benefits of USAID work is difficult unless a concerted effort is made to identify and report success stories. These need not be created, there are many positive results achieved, but they often go unreported. If personnel working on each activity and project was responsible for, in addition to their project/activity specific responsibilities, identifying and objectively reporting success stories, the information bank that would be developed could become a very useful resource for achieving support for USAID's work.

Implementation Related

1. **Develop and sustain effective operating linkages to leverage the experience and know of successful enterprises and individuals.** Many medium and larger agribusiness firms and professionals have the skills needed to accelerate the rate of agribusiness growth on SSA. But this talent, expertise, and know how is small compared to the need. Therefore, ways must be found to leverage these scarce skills so that their benefits can be enjoyed by a large number of enterprises and entrepreneurs. Such leveraging can be achieved through outgrower arrangements, subcontracting, mentoring, "commercial" associations, and joint efforts by the local extension service/R&D, the private sector, and donors on constraint alleviation. For large buyer-small producer linkages transactional transparency, especially regarding pricing, is essential to build and retain confidence.

2. **Develop integrated (one-stop-shop) agribusiness development service centers, which can provide in one location all the services needed by SME agribusinesses.** These services include financing (flexible equity and debt based on business and reputation considerations); technical assistance and consulting services on processing, packaging, transport, quality assurance, and cost control; managerial consulting on business strategy and planning, financial management, and on sharing fixed assets; and assistance gaining access to domestic and international support networks.

3. **Investigate the development, promotion, and use of integrated, diversified agribusiness associations**. These associations would include producers, processors and packers, exporters, and service companies as members. They would: provide a range of integrated services, including input supply, output consolidation, marketing, and technical assistance; identify, understand, and respond to members' *priority* needs; demonstrate good funds sources and uses understanding and management; be able to balance policy and voice concerns with members' other priority needs; and possibly support or directly provide group lending. Umbrella associations can also be used to achieve this type of leverage and range of services.

4. **Consolidate and thus leverage the activities of micro and small enterprises.** Such consolidation and leveraging can be achieved by joint input purchasing, by owning fixed assets in common, by consolidating output, by using a common source for technical assistance, by having full-time rather than part-time operations managers, by negotiating and lobbying as a group, and by self-help groups coming together to form an association.

5. **Place as much emphasis on identifying and developing opportunities as on constraints analysis and policy enhancement.** First, determine where the opportunities are and how to capitalize on them; then assess the policy and enabling environment constraints only if they limit access to or the ability to capitalize on established opportunities.

6. **Place predominant enabling environment focus on conditions that are constraints to high priority agribusiness opportunities**. Prioritize enabling environment constraints on the basis of interviews with entrepreneurs and commercial participants insights into high-opportunity subsectors. Place equal emphasis on i) proper enforcement of established rules and regulations and ii) policy modifications. Look for joint public/private/donor solutions to priority enabling environment constraints (e.g., infrastructure). Understand that commercial policy enhancement and institutional development must be private sector and market led. Use enabling environment policy enhancement project professionals who are directly involved in business development as a source of policy modification needs.

7. **Emphasize regional, specialty, and domestic markets for agribusiness micro and small enterprises.** This would include a focus on balancing domestic supply and demand, on value-added products (e.g., maize milling), on less demanding regional markets, and on niche markets with *established* customers.

Glossary of Acronyms and Abbreviations

AED	Academy for Educational Development
AfDB	Africa Development Bank
AFR/SD	Africa Bureau/Sustainable Development
AMIS II	Agribusiness Marketing Improvement Strategies II
ANEPP	Agricultural Non-Traditional Export Promotion Program (USAID)
APEX	Animal Productivity and Export Project (USAID)
ARDA	Agricultural and Rural Development Authority (various donors)
ASC	Agribusiness Service Center
ATI	Appropriate Technology International (Tanzania Swiss Trust Fund and others)
CAAS	Cooperative Agriculture and Agribusiness Support Project (USAID)
CARE	Care International in Zimbabwe (USAID and private donors)
DANIDA	Danish International Development Authority
DHV	Développement de la haute vallée (USAID)
EPADU	Export Policy Analysis and Development Unit
EU	European Union
FAO	Food and Agricultural Organization of the UN
GTZ	German Technical Cooperation (German government)
HRDP	Human Resources Development Program
IDIL	Instituto Nacional de Desenvolvimento de Industria Local (various EU donors)
IFC	International Finance Corporation
ISME	Indigenous Small and Medium Enterprise
K-MAP	Kenya Management Assistance Program (USAID)
KAED	Kaolack Agricultural Enterprise Development Project (USAID)
KEDS	Kenya Export Development Support Project (USAID)
LAC	Latin America and the Caribbean
LOP	Length of Project
M&E	Monitoring and Evaluation
MSE	Micro and Small Enterprise
NGO	Non-Government Organization

NTAE	Non-Traditional Agricultural Export
OCA	Operational Constraints Analysis
PSFP	Private Sector Foundation Project (World Bank)
PSGE/PSD	Productive Sector Growth and Environment Division/Private Sector Development Unit
PVO	Private Volunteer Organization
RMPS	Risk Management and Profit Sharing
ROGP	Rubber Outgrower Project (CFD/World Bank)
SAEDF	Southern Africa Enterprise Development Fund
SD/PSGE	Sustainable Development/Productive Sector Growth and Environment
SEPSO	Small Enterprise Professional Service Organization
SME	Small and Medium Enterprise
SO	Strategic Objective
SSA	Sub-Saharan Africa
TA	Technical Assistance
TIP	Trade and Investment Project
TISCO	Tanzania Industrial Studies and Consulting Organization
USAID	United States Agency for International Development
ZED	Zimbabwe Enterprise Development Project (USAID)
ZIMMAN	Zimbabwe Manpower Development II Project
ZimTrade	Zimbabwe Export Promotion Program (EU)
ZOPP	Zimbabwe Oil Press Project

1. General Introduction to the Eight Country Study

1.1 BACKGROUND

USAID Missions, and to a lesser extent other donors, are designing and implementing programs with the objective of developing more efficient agricultural product marketing systems. The Africa Bureau's *Agricultural Marketing and Agribusiness Development Strategic Framework* calls for examining marketing constraints and identifying ways to improve marketing efficiency. USAID does not yet have effective monitoring and evaluation mechanisms for recently established agribusiness development programs nor ways to disseminate the lessons learned from these innovative projects to Missions in other countries.

USAID's Africa Bureau therefore requested the Agribusiness and Marketing Improvement Strategies (AMIS II) project to carry out surveys of innovative agribusiness projects in a number of Sub-Saharan Africa (SSA) countries for the purpose of providing the Bureau and Field Missions with (a) a compilation of lessons learned to assist in developing future marketing and agribusiness development activities and (b) an effective monitoring and evaluation mechanism for its present and future activities. The complete Terms of Reference for the activity are included as Appendix A to this report.

1.2 OBJECTIVES

"The objective of this research activity is to increase understanding of the role and significance of new, innovative agricultural marketing and agribusiness programs that Missions are implementing, and to synthesize a cogent set of "lessons learned". In an era of scarce development resources it is primordial that design innovations and project successes be disseminated rapidly and replicated elsewhere. As agribusiness development projects have grown more complex, the need for monitoring and evaluation has risen accordingly. The research activity will focus on two categories of innovative programs to support agricultural marketing development: supporting services and institutions; and financial systems and services."[1]

1.3 ANALYTICAL ISSUES TO BE ADDRESSED

The research activity calls for the consultant to monitor in the targeted countries the impact of new and innovative programs implemented by donor agencies and to carry out case studies of agribusiness firms targeted by a project or benefiting from a project.

As called for in the Statement of Work referenced above, the major analytical issues to be addressed are:

(1) What are the major constraints that the program or mechanism was designed to address?

(2) What are the performance indicators to measure impact and how do they relate to the goal and purpose of the mechanism/project?

(3) What has been the effect of the mechanism/project on private sector investment levels, export promotion, and people-level impacts?

1.4 AMIS II APPROACH TO AGRIBUSINESS DEVELOPMENT RESEARCH

The AMIS II Project was designed to provide USAID access to private sector commercial expertise that would help improve agribusiness marketing efficiency.

The major focus of the project is on stimulating *private sector led economic development,* not on enabling environment enhancement or social development. Although enabling environment enhancement and social development are important aspects of economic development, the AMIS II project addresses them only when they act as constraints to commercial development. AMIS II focuses primarily on the provision of inputs to production agriculture and all aspects of agriculture *after the farm gate*. The project does investigate production agriculture issues unless so dictated by market requirements. The project uses a *marketed* or *demand pull* approach.

The AMIS II approach is to address agribusiness marketing efficiency improvement and agribusiness project impact measurement and evaluation from a commercial and analytical perspective. Thus, this report is more prescriptive in nature and less descriptive than a typical USAID activity report. In other words, it deals more with the "so what?" and less with the "what's so?" of agribusiness development activities.

The principal authors of this report are first and foremost agribusiness operations and consulting professionals with many years of international *private sector* food and agribusiness development experience, much of which was gained while living and working outside the United States. Most of this experience was in management positions with leading food, agribusiness, and agribusiness supply firms such as Beatrice Foods, ConAgra, Cargill, FMC, and Monsanto, and was focused on business expansion and market entry in developing countries. Jim Maxwell currently works for Cargill Technical Services, which reports to the head of Cargill Africa. Cargill's Africa operations include 15 agribusinesses located in 8 different African countries.

The result of the above orientation is a presentation style that is not academic, but rather crisp, authoritative, and judgmental. It is based on the authors' in-depth and extensive knowledge of agribusiness firm operations, investor/financier perspectives, and their significant business development/market entry consulting experience. Therefore, the presentation style used herein uses pointed observations and represents the best business judgment of highly experienced and successful practitioners.

1.5 METHODOLOGY

The methodology adopted by the AMIS II team for this activity consisted of the following steps:

1. Identify and select Key Focus (apparent high-opportunity) Areas for research based on major areas of current USAID interest and the anticipated potential of a key focus area to positively affect agribusiness development. The four areas chosen—based on a literature review, interviews in Washington, and a field survey—were the development of **Non-Traditional Agricultural Exports (NTAE), Agribusiness Associations, Small and Medium (agribusiness) Enterprises (SME),** and **Agribusiness Financial Services.** The first three fall into the category of "supporting services," as mentioned in project objectives (see section 1.2); the fourth relates to the second category—financial systems and services. As part of this effort, the consultants reviewed the project monitoring and evaluation procedures used by the Missions and made recommendations to improve them (as called for in "Analytical Issues," section 1.3 above).
2. Conduct a literature search on all identifiable USAID and other donor-supported agribusiness projects in SSA countries.
3. Based on (1) and (2) above, select the SSA countries that have agribusiness projects or activities, sponsored by any donor, that relate to the Key Focus Areas. Solicit USAID Mission support to work in those countries that have both relevant projects and activities and sizeable agribusiness sectors.
4. Arrange and complete an initial field trip to countries where USAID Missions invited the consultants to work, and that have relevant agribusiness projects and activities being implemented. Collect additional information on the selected projects and on any others suggested by field personnel.

Confirm Mission and REDSO-level Key Focus Areas of interest.

5. Screen the identified projects or activities and select those that have aspects relevant to project objectives and to the Key Focus Areas, and that are sufficiently developed to *start* yielding lessons learned.

6. Arrange and complete additional field trips to collect detailed information on the most relevant projects and do case studies on target beneficiaries, primarily via in-depth interviews with project managers, donor management, and beneficiaries.

7. Analyze the information collected, extract lessons learned, and suggest the implications for enhancing the design, implementation, and monitoring and evaluation of USAID agribusiness projects.

8. Expand the geographic coverage and increase the depth of analysis both in countries and in the Areas of Focus that can be affected by USAID agribusiness activity design and implementation.

The activity in West Africa focused on Association Development and Financial Services; activity in Southern Africa focused on SME and NTAE development. The SME focus was on the development and sustenance of *indigenous* SMEs (ISMEs), especially in Zimbabwe and to a lesser extent in Mozambique and Tanzania.

1.6 LIMITATIONS

Research was limited to the countries that responded positively to the SD/PSGE/PSD request for collaboration.

USAID is the only donor with a particular interest in agribusiness development, and this interest is quite recent. Therefore, there are a limited number of donor projects specifically targeted on agribusinesses, and even fewer with a sufficient track record for in-depth evaluation (i.e., any results are very short term in nature). Recently, the World Bank and EU donors, including CDC and some of the German donor foundations, have focused on private sector development, which often includes agribusinesses. Therefore, many of the projects and beneficiaries assessed under this activity were available to or assisted agribusinesses, but that is not their primary focus.

1.7 ORGANIZATION OF THE INNOVATIVE ACTIVITY PROJECT REPORTS

The entire *Innovative Approaches* project has two phases. Phase I covered East Africa; Phase II covered West Africa and Southern Africa, and added three secondary literature studies.

Innovative Approaches research findings are reported in five separate volumes. They are Volume 1 (this document) - Overall Project Summary, Conclusions and Cross-Cutting Findings, Volume 2 - Secondary Research Findings, Volume 3 - East Africa (Kenya and Uganda), Volume 4 - West Africa (Ghana, Mali, and Senegal), and Volume 5 - Southern Africa (Zimbabwe, Mozambique, and Tanzania). Phase 1 (East Africa) was a separate activity, but a predecessor to Phase 2 and had very similar objectives. Phase 2 broadened the geographic scope and went into more depth on the key Areas of Focus. Therefore, output from both Innovative Approaches the activities is presented in a single series.

Each of the regional reports (Volumes 3, 4, 5) are organized as follows:

Introduction

- Key Regional Findings (organized by the four Areas of Focus plus Monitoring and Evaluation, General Recommendations, and Issues Deserving Further Study)
- Country-Specific Studies (separate chapters)

  Entities/Case Studies Selected

  Findings on Donor Projects

  Findings on Associations

Findings on Development Finance Organizations

Findings on Private Agribusiness Firms

Lessons Learned and Implications for USAID Planning — organized by the four Areas of Focus plus Monitoring and Evaluation, General Recommendations, and Issues Deserving Further Study

In volumes 3 through 5 findings on the larger projects and associations were analyzed in a manner that responded to the specific research questions listed in the Scope of Work. The research questions, as interpreted by the consultants, are as follows:

1. What project or activity objectives are relevant to the areas of focus chosen for study?
2. How are these aspects of the activity innovative?
3. What performance indicators were or are being used to monitor/measure impact of the activity?
4. How are external influences being managed?
5. How successful have the relevant interventions been?
6. What new agribusiness opportunities have resulted from the activity?
7. What monitoring and evaluation mechanisms, systems, and indicators can be suggested?
8. What relevant lessons can be learned from this activity? What mechanisms worked and did not work, and how could the impact be improved/enhanced?
9. What are the relevant implications for USAID project design and implementation?
10. What new mechanisms or interventions can be suggested to increase the effectiveness of these projects or activities?
11. What indicators of project success can be suggested, and what is the best way to monitor those indicators?
12. What other useful information should be reported and what are the main unresolved issues?

Each of the volumes in this series are structured as an autonomous document; therefore, some of the introductory material appears in each volume. Also, the country chapters are designed for use by country Missions as autonomous documents and contain material that is repeated in regional summaries. Important material from regional summaries is repeated in this volume — the SSA overview.

2. Introduction to the Sub-Saharan Africa Overview

2.1 GEOGRAPHIC COVERAGE

Eight countries were studied in the *Innovative Approaches* activity: in East Africa, Kenya and Uganda; in West Africa, Ghana, Senegal, and Mali; and in Southern Africa, Zimbabwe, Mozambique, and Tanzania.

2.2 TYPES OF ENTITIES

The entities assessed in this activity are listed below, categorized by type and country. The donor that provides support to the entity, if any, is shown in parentheses. Some entities were evaluated in more depth than others, but an attempt was made to extract lessons learned from all.

Overall, 37 projects, 25 associations, 32 financial institutions, and 23 private enterprises were assessed during the *Innovative Approaches* activity. Most of these entities are involved in agribusiness development.

AMIS II will be carrying out similar, albeit more focused, work for PSGE/PSD in SSA ("Operational Constraints to ISME Development and the Identification of Financial Intermediaries for Use by the SAEDF to Help Overcome These Constraints" and "Optimal Strategies and Structures for the Development of NTAE and the Role of ISMEs Therein") that will involve entities similar to those targeted by this activity. Therefore, some of the assessments were designed to identify entities for later more detailed assessments as well as to extract lessons learned for this activity.

Projects:

Kenya

KEDS – Kenya Export Development Support Project (USAID)

SEPSO – Small Enterprise Professional Service Organization (Friedrich Naumann Foundation)

K-MAP – Kenya Management Assistance Program (USAID)

Uganda

ANEPP – Agricultural Non-Traditional Export Promotion Program (USAID)

CAAS – Cooperative Agriculture and Agribusiness Support Project (USAID)

Silk – Silk Sector Development Project (European Union [EU])

Ghana

TIP – Trade and Investment Project (USAID)

HRDA – Human Resources Development Assistance Project (USAID)

ROGP – Rubber Outgrower Project (CFD/World Bank)

Senegal

KAED – Kaolack Agricultural Enterprise Development Project (USAID)

PSFP – Private Sector Foundation Project (World Bank)

Mali

APEX – Animal Productivity and Export Project (USAID)

DHV – Développement de la haute vallée (USAID)

Zimbabwe

ARDA – Agricultural and Rural Development Authority (Various)

CARE – Care International in Zimbabwe (USAID and private donors)

DANIDA – Danish International Development Authority

GTZ – German Technical Assistance (German government)

Mashonaland and Manicaland Projects – (EU)

World Bank Projects (World Bank)

ZED – Zimbabwe Enterprise Development Project (USAID)

ZIMMAN – Zimbabwe Manpower Development II Project /Academy for Educational Development (AED) – (USAID)

ZimTrade – Zimbabwe Export Promotion Program (EU)

ZOPP/ATI – Zimbabwe Oil Press Project/Appropriate Technologies International (USAID)

Mozambique

CARE – Care International em Mocambique (private and donors)

FAO/AgMin – Food and Agricultural Organization of the UN/Mozambique Ministry of Agriculture (FAO)

IDIL – Instituto Nacional de Desenvolvimento de Industria Local (Various EU)

World Bank Projects (World Bank)

World Vision – World Vision Mozambique (Private)

Tanzania

ATI – Appropriate Technology International (Tanzania Swiss Trust Fund and others)

APDF – Africa Project Development Facility (IFC)

TBC – The Business Center (USAID)

GTZ – German Technical Cooperation (German government)

NEVEPA – Network Vegetable Production Africa (GTZ)

SIDA – Swedish International Development Authority (Swedish government)

SAT – Social Action Trust (USAID)

TechnoServe – TechnoServe Tanzania (USAID and others)

World Bank – The World Bank (multinational)

Associations:

Kenya

KESSFA – Kenya Small Scale Farmers Association (Hans Seidel Foundation)

AAK – Agribusiness Association of Kenya (USAID support requested)

Uganda

UOSPA – Uganda Oilseed Processors Association (USAID)

UNFA – Uganda National Farmers Association (Danish International Development Agency [DANIDA])

UVGPA – Uganda Vanilla Growers and Processors Association (USAID)

UMA – Uganda Manufacturers Association (USAID)

UGEA – Uganda Grain Exporters Association

UHA – Uganda Horticultural Association

Ghana

FAGE – Federation of Associations of Ghanaian Exporters (partial USAID)

HAG – Horticultural Association of Ghana

GEPC – Ghanaian Export Promotion Council (Ghana government)

Senegal

CCIA – Chambre de commerce, d’Industrie et d'Agriculture de la région de Dakar

GEPAS – Groupement des exportateurs des produits agricoles du Sénégal

ASEPAS – Association des exportateurs des produits agricoles du Sénégal

Mali

AMELF – Association malienne des exportations des légumes et des fruits

APCAM – Assemblée permanente des Chambres d'Agriculture du Mali

FNEM – Fédération nationale des employeurs du Mali

CCIM – Chambre de commerce et d'Industrie du Mali (Mali government)

Zimbabwe

CFU – Commercial Farmers Union

HPC – Horticultural Promotion Council (CFU and export cess)

ICFU – Indigenous Commercial Farmers Union

ZFU – Zimbabwe Farmers Union

Mozambique

Agrarius – Associacao dos Produtores Agrarios de Mocambique

Tanzania

CTI – Confederation of Tanzania Industries (SIDA and others)

TANEXA – Tanzania Exporters' Association (some indirect USAID)

Development Finance Organizations:

Kenya

KTPE – Kenya Trust for Private Enterprise (USAID)

Uganda

DFCU – Development Finance Corporation of Uganda (International Finance Corp. [IFC], Overseas Development Authority [ODA], German aid program [DEG])

APDF – Africa Project Development Facility (International Finance Corp. [IFC])

VOCA – Volunteers in Overseas Cooperative Assistance (USAID)

Ghana

ADB – Agricultural Development Bank (Government of Ghana)

APDF – Africa Project Development Facility (International Finance Corp. [IFC])

TechnoServe credit programs

GVCF – Ghana Venture Capital Fund (USAID grant; Harvey & Co. through CDC)

CDC – Commonwealth Development Fund (UK)

Senegal

CNCAS – Caisse nationale de crédit agricole du Sénégal (CIDA, IFAD, ADB, FED)

ACEP – Agence de crédit pour l'Entreprise privée (USAID, CIDA, government of Senegal)

CPEC–CICM – Caisses populaires d'Épargne et de crédit du Centre international du crédit mutuel (FAC for technical assistance; CFD)

CS/CAPEC/LG – Comité consultatif des caisses d'Épargne et de crédit de la région de Louga (ADF of ADB; International Foundation for Development)

CEC/CCR/PEGF – Caisse d'Épargne et de crédit/Caisse populaires de crédit revolving/ Projet de promotion économique des groupements féminins (UNCDF, Netherlands, UNDP, government of Senegal)

SENCHIM Pilot Project (government of Senegal, CNCAS)

SEINVEST – Société financière SEINVEST (CDAO, BEI)

Mali

BNDA – Banque nationale de développement agricole

BAM – Bank of Africa/Mali

BDM – Banque de développement du Mali

CARE credit programs

PRMC – Programme de réstructuration du marché céréalier

Zimbabwe

AFC – Agricultural Finance Corporation (GoZ, et al.)

APDF – Africa Project Development Facility (IFC)

BSBC – Barclay's Small Business Center

EDESA – Economic Development in Equatorial and Southern Africa Societe Anonyme

VCCZ – Venture Capital Company of Zimbabwe

ZDB – Zimbabwe Development Bank

ZimBank – Zimbabwe Banking Corporation Limited

Mozambique

None

Tanzania

1st Adili – First Adili Bank (some USAID)

LAKE – Lake Zone Small Business Support Project (ODA)

StanChart – Standard Chartered Bank Tanzania Limited

TDFL – Tanzania Development Finance Limited (various EU donors)

TVCF – Tanzania Venture Capital Fund (various EU and some early USAID support)

Private Enterprises:

Kenya

Karzan Inc.

Lonrho

Standard Chartered Estate Management

Echuka Farms

Uganda

Ronco Pyrethrum Project

Ziwa Horticultural Exporters Ltd. (some USAID support)

Harriet's Flowers (some ANEPP/USAID support)

Ghana

BENSO – Benso Oil Palm (Unilever/Ghana with ADB finance)

Senegal

None

Mali

CMDT – Compagnie malienne de développment des textiles

Zimbabwe

A&S Business Development and Promotion

Favco Limited

Flair Limited

Gev's Flowers

Hortico

Hortpack

Selby Enterprise

Mozambique

Companhia da Zambezia

Interposto

Lomaco – Companhia Agro-industrial Lonrho Mocambique

Tanzania

Sluis Bros. (E.A.) Ltd.

Sun Flag (Tanzania) Ltd.

TISCO – Tanzania Industrial Studies and Consulting Organization (government of Tanzania)

2.3 ORIENTATION OF ENTITIES

Individuals representing entities from a broad range of sizes and stage of participation in the food system were interviewed during the fieldwork in SSA. A list of these individuals appears in the appendices of the individual country reports; the entities they represent are categorized in Table 2.1. Projects are categorized based on their primary beneficiary, associations on the types of firms their members represent, financial institutions on their target beneficiary, and firms on their business.

With respect to Table 2.1, please note that:

- The focus of this activity was on quadrants V, VI, VIII, IX, XI, and XII, although no firms were identified that would fit in quadrant XII.
- In general, the viability of commercial entities decreases from the top right quadrant (III) to the bottom left (X). The risk associated with commercial entitites, projects, and associations increases (due to the vagaries of nature, lack of management capacity, and tighter margins) in a very similar manner.
- One objective of this activity was to identify, based on lessons learned, sustainable interventions that will make agribusiness ventures more viable and vibrant, particularly in quadrants V, VI, VIII, and IX. However, because there are few firms, projects, or associations that fall into quadrants VI and IX, other relevant entities were included in the activity fieldwork.
- Given the extensive donor focus on production agriculture and, more recently, on microenterprises, and the relatively undeveloped nature of the private sector in all countries, other than Kenya and Zimbabwe, many of the projects assessed were focused on quadrant X.

Table 2.1 Size Distribution and Focus of Firms, Associations, and Projects Evaluated

Enterprise Size	Production Agriculture	Agribusiness	High Value-Added Processing
Tier 1 > 100 full-time employees: *Established exporter*	Quadrant I **ZimBank (Z)** **Standard Chartered Estate Management (K)** **BNDA (Mali)** **BAM (Mali)** **BDM (Mali)**	Quadrant II **Interposto (M)** **Lomaco (M)** **Compania da Zambezia (M)** **Standard Chartered (T)** **Sluis (T)** *TISCO (T)* *APDF (Z)* **VCCZ (Z)** **Favco (Z)** **Selby (Z)** CFU (Z) CTI (T) **Lonrho (K)** **Sega Farms (K)** **House of Manji, flour milling (K)** AAK (K) **SEINVEST (S)** **CMDT (M)** CNCAS (S)	Quadrant III **Hortico (Z)** **Flair (Z)** **Farmers Choice (K)** **House of Manji, bakery (K)** UMA (U) **DFCU (U)** *APDF (All)* **EDESA (Z)** **Ziwa Roses (U)** GVCF (G) **CDC (G)**
Tier 2a (SMEs) 10 - 100 full-time employees: *New exporters (or not exporting at all)*	Quadrant IV *World Bank/FAO (M)* *TechnoServe (T)* *SIDA (T)* *The Business Center (T)* *SAT (T)* **1st Adili (T)** *ZED (Z)* *ZIMMAN (Z)* **Echuka Farms, herbs & vegetables (K)**	Quadrant V *IDIL (M)* *LAKE (T)* **Sun Flag (T)** **Barclay's SBC (Z)** ICFU (Z) *ANEPP (U)* **Ronco (U)** *KTPE (K)* Uganda Horticulture (U) *VOCA (U)*	Quadrant VI **Echuka Farms, yoghurt (K)**

Continued

Table 2.1 Size Distribution and Focus of Firms, Associations, and Projects Evaluated (continued)

Enterprise Size	Production Agriculture	Agribusiness	High Value-Added Processing
Tier 2b (SMEs) 10 - 100 full-time employees: *Established exporters or company*	Quadrant VII *ARDA (Z)* TANEXA (T) *farmer/village groups*	Quadrant VIII *TDFL (T)* *TVCF (T)* *World Bank (Z)* *EEC/Mashonaland (Z)* HPC (Z) *KEDS (K)* K-MAP (K) **Karzan (K)** Uganda Grain Exporters (U) TIP (G) HRDA (G) FAGE (G) GEPC (G) AMELF (Mali) CCIM (Mali) CCIA (S) GEPAS/ASEPAS (S)	Quadrant IX *ZimTrade (Z)*
Tier 3 (MSEs) < 10 full-time employees *New or interested in exporting*	Quadrant X *CARE (M & Z)* Agrarius (M) *AgMin/FAO (M)* *World Vision (M)* *ATI (T & Z)* *NEVEPA (T)* *GTZ (T & Z)* *DANIDA (Z)* *AFC (Z)* *ZDB (Z)* ZFU (Z) *KESSFA (K)* *CAAS (U)* Natl. Farmers (U) DHN (Mali) *APCAM (Mali)* KAED (S) CNCAS (S) CPEC-CICM (S) CEC/CCR/PEGF (S) SENCHIM (S)	Quadrant XI **Gev's Flowers (Z)** **Hortpack (Z)** ***A&S Consultants (Z)*** *IDIL (T)* *SEPSO (K)* Vanilla & Silk Projects *(U)* Oilseed Processors *(U)* **Harriet Ssali (U)** *HAG (G)* APEX (Mali) PRMC (Mali) ACEP (S) CS/CAPEL/LG (S)	Quadrant XII

Note: (M) - Mozambique, (T) - Tanzania, (Z) - Zimbabwe, (K) - Kenya, (U) - Uganda

Firms are **boldfaced**; projects are in *italics*; associations are underlined. Classifications are based on the major focus of the entity.

3. Sub-Saharan Africa Findings

3.1 PROJECT FINDINGS

3.1.1 Agribusiness Projects in SSA and the Role of USAID

Fifty-one donor-supported activities that are involved with agribusiness were reviewed during implementation of this activity (see Table 3.1.). Of these only 18 have a majority focus on production agriculture input supply or postharvest commercial agribusiness development, (i.e., do not have production agriculture or agricultural/agribusiness microenterprises as their primary target beneficiary), or do not serve agribusinesses as just one of many types of clients.

Of the 51 “some relation to agribusiness” projects, USAID supports 27 (about 50 percent). However, the comparatively larger size of USAID projects means that USAID’s dollar value share of “some relationship to agribusiness” projects is much greater than 50 percent. USAID supports 13 of the 18 active “predominant agribusiness focus” projects, and again represents an even larger share of the dollar value of these projects. Therefore, *USAID is the most important donor supporting agribusiness development in SSA, especially in terms of the dollar value of support*.

The area of focus with the largest number of projects is Financial Services, which accounts for 37 percent of the projects identified. However, only a few of these projects are focused on agribusinesses; most support production agriculture or the development of private sector firms in general, although they do have agribusiness firms as clients. The second largest area of focus is SME Development, where only 25 percent of the projects have a predominantly agribusiness focus. In Association Development, agribusiness firms are the target beneficiary for 60 percent of the projects. For NTAE Development, 70 percent of the projects targets agribusinesses.

Therefore, (1) USAID is the dominant supporter of agribusiness projects in SSA, (2) most donor support for agribusiness-focused projects is to NTAE Development and Association Development, and (3) USAID support represents the majority of donor support in both of these areas of focus.

3.1.2 Constraints the Projects Were Designed to Resolve

The constraints to agribusiness development that these projects were designed to resolve vary by the Area of Focus for the project. The most important constraints that the projects in each Area of Focus were designed to overcome are described below.

SME Development. Constraints to SME development include entrepreneurs’ lack of income, their limited business management skills (yet few of the projects focus on financial management training, one of the weakest skills), and poor access to technical assistance.

Financial Services. Finance is very difficult to access, especially for smaller agribusinesses and those located in rural areas and in countries with land tenure problems; and there is minimal entrepreneur equity/collateral for similar reasons. It is important to note, however, that 42 percent of the financial services projects focus on large clients (i.e., those who need at least $250,000 in financing) and 26 percent are venture capital funds, which can do very little to support SMEs since they have a high minimum investment that must be at least matched with entrepreneur equity. Therefore, less than 32 percent of these projects focus on SMEs, firms that represent the largest number of formal enterprises in a developing country, and the group with the greatest need for financial services.

Association Development. Development of agribusiness associations is limited by a lack of an organized approach to export development; weak “voice”

of the private sector with government; poor scale economies of individual enterprises; a shortage of or difficult access to inputs, both physical and technical; difficulties associated with marketing producers' output; and difficulties, especially for small associations, affording quality management.

NTAE Development. NTAE development is constrained by a lack of exports and therefore lack of access to foreign exchange; low income per hectare from traditional crops; weak knowledge of destination markets; poor extension support; limited availability of relevant TA; minimal contacts in destination markets; and enabling environment problems, especially related to the cold chain and local as well as international transportation.

3.1.3 Innovative Features of the Projects

Any project that focuses on agribusiness is innovative in that all such projects are quite new; that is, there has been little emphasis on agribusiness development in the past. In general, the most innovative design approaches and techniques are being pursued by USAID projects. Examples of innovative approaches and USAID's innovativeness are shown below.

It has been recognized only recently that agribusiness, versus production agriculture or agricultural microenterprise development, is the vital linkage between production agriculture and consumers, and that without high performance in the agribusiness sector neither producers nor consumers can be well served. Most donors have a long history in supporting production agriculture, but are not familiar with the commercial aspects of agribusiness. Therefore, strategic momentum and traditional capabilities and orientation have caused them to largely ignore agribusiness. USAID has recognized the potential for enhancing agribusiness, especially NTAEs, and has therefore been the innovator. Examples of innovative USAID agribusiness projects include TIP and HRDA in Ghana, APEX in Mali, KAED in Senegal, and KEDS in Kenya.

The idea that *agribusiness associations* can play an important role in overcoming the diseconomies of scale and raising the "voice" of agribusiness firms is relatively new. Developing associations that integrate producers, processors, and exporters into a single organization focused on developing the industry and enhancing the success of all participants is innovative. Good examples of such associations are UOSPA in Uganda, KESSFA in Kenya, and TANEXA in Tanzania.

The development of *umbrella associations* as a means to overcome the management and voice limitations of small specialized associations is also innovative. While those require careful management to avoid supporting another bureaucracy, they can provide a very effective way to leverage scarce donor resources and achieve highly functional associations. Again, USAID has taken the lead with such projects (e.g., FAGE in Ghana).

Policy enhancement is a traditional area of focus for donors. Most donors try to accomplish this through the conditions precedent associated with their loans/grants for government budget balancing and by supporting advisors within the ministries of agriculture. USAID not only supports agribusiness associations, which can effectively lobby for enabling environment enhancements, but also sponsors a unique and innovative project where local professionals focused on *policy enhancement* are at the same time involved in SME *and* NTAE *development*. This provides them with unique perspectives on the operating constraints caused by inadequacies in the enabling environment and on what needs to be done to make the necessary corrections. An example of this very innovative approach is the EPADU portion of the ANEPP project in Uganda. Unfortunately, researchers did not find any other examples of this innovative and potentially high-impact approach.

Support for *venture capital* firms is also an innovative donor approach to private sector development in SSA. USAID has played a significant role here, but primarily (with the exception of the now completed KTPE in Kenya) by providing support to establish and operate the funds rather than for capitalization. EU donors such as CDC have provided venture capital funding. Venture capital funding contributes significantly to the development of large firms, but rarely assists SMEs (the largest number of formal enterprises) because of the cost of doing the feasibility work for an equity investment.

USAID and a few other donors have recently developed or adapted *innovative financial instruments* to help overcome the equity and financing problems of SME entrepreneurs. These instruments include income notes, for which the payback is a function of the borrower's business success, convertible debt, debt-for-equity swaps, and sweat equity. An example is the newly developed SAT/RMPS project in Tanzania.

The most important innovation is the *integration* of several services into a single project. Production agriculture projects found that input supply and marketing constraints limit the impact of their efforts, so they began incorporating these aspects into their projects. Then it became apparent that management training and TA would be necessary to support the forward and backward integration of producers or of firms servicing producers. Recently, some projects have added indirect access (recommended sources) to financial services; however, access to financing is still a significant constraint for most SME firms. Although financing is readily available for microenterprises and for large firms, it is not readily available for SMEs, the "missing middle," which need \$50,000 to \$250,000 in financing. Examples of projects that offer some degree of services integration are the new LAKE and TBC/RMPS projects in Tanzania and KAED in Senegal.

It is very difficult for micro and small enterprises (MSEs) to directly participate in NTAEs. A very innovative approach to overcoming this constraint is the KESSFA project in Kenya. The association, supported by the Hans Seidel Foundation, organized producers into self-help groups (SHGs), which in turn belong to KESSFA. The association supplies inputs to the SHGs and markets their output, initially to exporters, but eventually directly to destination market importers. This innovative approach has great potential as a means for overcoming the diseconomies of scale and lack of marketing capability associated with MSEs and its ongoing success should be monitored for lessons learned and implications for USAID.

3.1.4 Role and Significance of Agribusiness Development Projects

The projects assessed were designed to overcome the constraints outlined in section 3.1.2 above. In addition, they all were intended to stimulate the development of the agribusiness sector, and the additional income and employment that would result. Most of the projects are targeted toward SMEs, but most of the NTAE development projects support any size exporting firm.

The significance and impact of projects should be measured on the basis of the extent to which they accomplish the objectives outlined in the project documents. Most USAID projects use macro level measurements. However, additional measures should be used to measure the success of firms directly assisted.

The significance of agribusiness development projects is substantial given the vital linkage role of agribusiness mentioned above, and the potential for NTAEs to increase producer and agribusiness firm income, improve value of output per hectare and unit of labor, use excess labor, and generate foreign exchange. Agribusiness association development and financial services to agribusiness projects are two important ways to stimulate agribusiness development. Associations are a way to leverage donor resources by helping groups of agribusinesses help themselves and a means to sustain the benefits by developing associations that will continue to function after donor support ends. Financial services projects are very significant in that they attempt to address one of the most important constraints to agribusiness development, lack of access to financing.

Agribusiness development, and therefore donor projects that support agribusiness, are extremely important because (1) agriculture and agribusiness represent a significant portion of the GDP in nearly all of the countries of SSA, (2) a large portion of the population derive their livelihood from agriculture and agribusiness, (3) much of the population is familiar with agriculture and therefore has a basic understanding of agribusiness development (as compared to businesses or information technology businesses, for example), and (4) agribusiness success is closely aligned to food security.

3.1.5 Projects Impact

Private Sector Investment. Most of the projects assessed are relatively new, which makes it difficult to quantify their impact on private sector investment. Certainly for domestic private sector investment, it would be nearly impossible to establish new agribusinesses or successfully develop them without the projects, since the projects are often the only source of the services needed to do so. This is especially true for SMEs, NTAE development, and financial services to MSE agribusinesses.

Foreign investment in agribusiness in SSA is heavily dependent on the quality of the enabling environment and the availability and quality of supporting services. Also, foreign investors often enter a market in an alliance with successful existing agribusiness firms. Donor-supported agribusiness projects often work to enhance the enabling environment and to develop associations that support that objective, and they frequently help service firms establish themselves and survive. Therefore, these projects are helping to develop positive conditions for foreign investment in agribusiness.

Exports. NTAE projects focus directly on stimulating exports. As the NTAE industry in each country matures and becomes able to provide itself with the services and to stimulate the enabling environment needed for success, the volume of exports will increase significantly, and the employment, income, and foreign exchange benefits will be fully realized. The donor-supported NTAE development projects assessed by this activity are playing a *significant* role in overcoming the constraints to and capitalizing on the opportunities for vibrant NTAE industries. NTAE project success in Kenya (KEDS), Uganda (ANEPP), Ghana (TIP), and Zimbabwe (Mash East) are examples of this success. USAID has played and continues to play an important, leadership role in NTAE development projects.

People Level (e.g., employment, food security, WID). The projects assessed during this activity, although in their early stages of development, have for the most part successfully stimulated the formation and expansion of agribusinesses. This has resulted in additional employment in the firms themselves, as well as additional employment in companies that provide them services and the producers that supply them inputs. NTAE firm success usually represents *many new* positions at all levels of the system. It is often the case that since the typical NTAE firm is fairly large, the employment it generates, especially in rural areas that need it most, is substantial. For example, Ziwa Roses in Uganda, which received substantial help from ANEPP, employs 325 people who were not working full-time before the firm was established in a rural area near Kampala.

Food security within a country is enhanced by a fully functional agribusiness sector that efficiently and effectively translates the food and beverage needs and desires of the population back to producers and uses the vast majority of the right kind and timing of their production to fulfill consumers' needs. Fully functional agribusinesses (a) reduce postharvest losses through proper storage and preservation, (b) balance supply with demand on both a time and place basis, (c) stimulate the production of the highest value and type of products by the prices they pay, and (d) efficiently and effectively import food when there is an anticipated shortfall or when net prices are lower from another source due to comparative advantage. Agribusinesses can also improve the nutritional value of the food that is available through proper storage and supplementation, and by processing foods to reduce the labor required in their preparation and thus release that labor for other pursuits, including employment. Therefore, donor-supported projects that stimulate agribusiness development can and will lead to enhanced food security.

While the projects assessed did not focus on WID-specific issues, especially non-USAID projects, all projects were gender neutral, and encouraged and supported female entrepreneurs. Women play an important role in production agriculture in most of the countries covered, especially because many of the males move to urban areas to seek employment, leaving the females to take care of the family and tend the farm. In the Vanilla and Silk projects in Uganda, many of the producers are women. Unfortunately, due to land ownership and other collateral problems, as well as the time required to tend a family, it is very difficult for women to accumulate the collateral and have the time to develop and manage an agribusiness. However, several outstanding examples of female entrepreneurs were identified in this research. Echuka Farms (Mrs. Chege) in Kenya, Harriet's Flowers (Harriet Ssali) in Uganda, and Gev's Flowers and Hortpack (Mrs. Mavudzi) in Zimbabwe are excellent examples of female entrepreneurs who have been able to establish and are making progress toward sustaining agribusinesses, despite considerable difficulties. Donor-supported agribusiness projects can significantly help female agribusiness entrepreneurs if the projects are designed to offer the full range of services they need, and if the entrepreneurs understand what it takes to be successful in a given agribusiness.

3.1.6 New Opportunities Resulting from the Projects

More than 50 projects were assessed; thus, it is difficult to relate all of the new opportunities created by all of the projects. Also, only 18 of the projects have a predominant focus on agribusiness. Table 3.2 attempts to summarize the main impact of these 18 projects as well as the opportunities created by them.

In general these projects helped create an enabling environment that will allow the development of agribusinesses and provided technical and managerial assistance, primarily to existing businesses. Many projects helped producers either forward integrate or link up with processors and exporters so that together they can develop the industry and support their own success.

SME projects identified and developed new markets and new products, helped establish new businesses (mostly small ones), and helped producers forward integrate and balance their relationship with processors and exporters.

Financial service projects supported the development of a few new businesses, helped establish producers of new, higher value commodities, and supported the transition from a state-controlled to a market-led economy.

Association development projects helped train association management; helped increase NTAEs by forming and supporting strong associations and an umbrella association; provided technical services to agribusinesses and helped stimulate the production of needed raw material; supported new industries such as silk, vanilla, and horticultural products; and enabled producers to export directly and to increase their prices.

NTAE projects supported the start-up of new categories and many new businesses, put larger firms into the business, rehabilitated associations and promotion agencies supporting NTAE, helped SMEs hold market share under difficult competition, enabled producers to forward integrate, and supported the privatization of an agribusiness parastatal.

These donor-supported projects were most supportive of entrepreneurs who had started a business and needed technical and managerial assistance to make it grow and become sustainable. If financing was an important constraint, most existing projects were only able to refer the entrepreneur to other sources of financing. None of the projects offered the full range of services a new or expanding agribusiness needs to be successful and sustainable.

3.2 MONITORING AND EVALUATION FINDINGS

An important component of the *Innovative Approaches* activity was monitoring and impact assessment. According to the AFR/SD/PSGE/PSD Scope of Work, "USAID has no effective means to monitor and evaluate the progress being made in these innovative programs, nor is there a mechanism by which lessons learned can be synthesized and disseminated to other countries. This approach will work closely with Missions and governments to monitor and evaluate ongoing innovative approaches to provide needed services for agribusiness development." The five-volume *Innovative Approaches* series provides useful

Table 3.1 Distribution of Supported Agribusiness Projects by Type

Type of Project	USAID Sponsered: Major Projects, Active	USAID Sponsered: Major Projects, Complete	USAID Sponsered: Minor Projects	Total	Other Donors and Main Projects	Total Supported	USAID Share of Total (All/Agribusiness Focused)
SME	5 TBC - T *APEX - Ma K-MAP - K ZIMMAN - Z ZOPP - Z	0	3 CARE - T & Mo ATI - T *TechnoServe - T		4 SEPSO - K *Silk - U ARDA - Z IDIL - M	12	67/67 percent
Financial Services	2 *KAED - S SAT/RMPS - T	2 KTPE - K ACEP - S	3 APDF - Many GVCF - G TVCF - T		12 DFCU - U ADB - G *CNACS - S TDFL - T BNDA - Ma LAKE - T	19	37/50 percent
Associations	3 *HRDA - G *FAGE - G *UOSPA - U	0	2 *UVGPA - U *TANEXA - T		5 *KESSFA - K WVM - M UNFA - U GEPC - G CTI - T	10	50/83 percent
NTAE	5 *TIP - G *KEDS - K *ANEPP - U *DHV - Ma ZED - Z	1 *CAAS - U	1 *VOCA - U		3 *Mash East - Z ZimTrade - Z *ROGP - G	10	70/71 percent
Total	15	3	9		24	51	53/76 percent

* Predominant agribusiness focus (i.e., not production agriculture, not agribusiness as just one type of business served, and not microenterprise).

Table 3.2 Summary of Agribusiness-Focused Projects

Project (Focus)	Country	Sponsor	Major Objectives	Impact	Opportunities Created	Comments
APEX (SME)	Mali	USAID	Increase livestock and livestock products exports by supporting producers, traders, other related SMEs, and their associations.	Sheep exports and prices up; associations becoming effective at reducing export trade barriers; some production productivity improvements.	Additional markets; new value-added product forms; more effective associations	Using associations for leverage appears to be working. Opportunities for improved cooperation with related activity - OMBEVI.
TechnoServe (SME)	Tanzania	DANIDA, FMO, etc.	Develop a raw milk marketing cooperative in Arusha.	Some progress; but association was changed to cooperative due to more conducive laws.	Other SMEs developed, but most are quite small.	Modest impact for length of project.
Silk (SME)	Uganda	European Union	Develop Uganda Silk Producers Association into an integrated sustainable association	New, but the concept of a vertically integrated association has great potential.	New forward integration businesses will be developed. Influence of producers will be much greater.	Credit component planned. Two-year takeover of the project by the association is probably optimistic.
KAED (Financial Services)	Senegal	USAID	Establish demonstration fields; provide indirect financial services to agribusiness SMEs; train in production, management, and enterprise development.	Slow start, but a difficult agriculture area; only 7 new firms and 2 loans; too early to determine new SMEs' sustainability.	Seven new agribusinesses formed.	Uses GIEs for group lending. Reasonably well-integrated project.
CNCAS (Financial Services)	Senegal	GoS, supported by various donors.	Use financing to support the development of the agriculture/agribusiness sector and privatization of rice and groundnuts businesses.	Nonperforming and doubtful loans are 56 percent of portfolio, even with an interest rate below inflation. Savings deposits are growing.	Helped start new fruit and vegetable growers and exporters. May be helping the transition to free market agriculture, but at great cost.	Agriculture stagnant and groundnut output declining. CNCAS nowhere near self-sustaining. Needs to become very commercial.

Continued

Table 3.2 Summary of Agribusiness-Focused Projects (Continued)

Project (Focus)	Country	Sponsor	Major Objectives	Impact	Opportunities Created	Comments
HRDA (Associations)	Ghana	USAID	Train NTAE support institutions/associations, managers, and consultants.	Training is taking place. Association management is developing and membership increasing.	Focus on members' priority needs.	SMEs' managers. now in a better position to succeed/ sustain themselves.
FAGE (Associations)	Ghana	USAID	Strengthen member associations; improve TA for NTAE; represent members' interests to donors and government.	New, but has good management and is off to a solid start.	Increased NTAE from Ghana, strong self-supporting NTAE associations.	Good test of the umbrella association concept.
UOSPA (Associations)	Uganda	USAID	Use association to establish and develop a sustainable oilseed industry, including oil seed production, crushing business, and technical training.	Early; but how many of the crushers will ever be viable?	Stimulate the domestic production of oilseeds needed for crushing. Offset the major cost of imported vegetable oil.	Significant consolidation of small crushers is needed. Source of financing (group?) yet to be identified.
UVGPA (Associations)	Uganda	Minor USAID	Develop and sustain a viable vanilla industry. Association is vertically integrated and includes small growers.	So far looks good, depends on continued participation of key exporter.	Additional processing in-country; additional growers.	Good example of *successful* MSE participation in NTAE.
TANEXA (Associations)	Tanzania	Minor indirect USAID	Support members' NTAE objectives.	Just started, still getting organized. TBC helped establish the association.	Group lending for working capital is a good need vs. cost opportunity.	Members are mostly producers who want to be exporters.

Continued

Table 3.2 Summary of Agribusiness-Focused Projects (Continued)

Project (Focus)	Country	Sponsor	Major Objectives	Impact	Opportunities Created	Comments
KESSFA (Associations)	Kenya	Hans Seidel Foundation	Help form SHGs of horticulture producers; provide them inputs, training, TA, and market their output.	Members' receive 25 percent higher prices from KESSFA than from exporters.	Viability and additional margin for producers; a more balanced relationship with exporters.	Effective SHG leveraging and training + top-quality management has enabled KESSFA's success.
TIP (NTAE)	Ghana	USAID	Provide NTAE and business management TA to exporters; create and strengthen FAGE as umbrella NTAE association; provide policy advisor to Ministry of Industry; support APDF to assist SMEs.	NTAE up, APDF raised $8 million for SMEs, which created 300 jobs; policy environment liberalized.	Several SMEs taken to the next level; new NTAE businesses supported.	Lack of direct finance and finance for smaller firms a constraint.
KEDS (NTAE)	Kenya	USAID	Develop Horticultural Promotion and Horticulture Exporters Associations; improve government dialog with industry; deliver direct TA to horticulture exporters.	2,800+ firms assisted; NTAE up 6 percent/yr.; both associations becoming viable.	Rehabilitated associations moving toward sustainability.	Industry promotion much better coordinated.
ANEPP (NTAE)	Uganda	USAID	Develop the NTAE industry via direct TA and mgt. consulting to exporters and enhancing the enabling environment.	NTAE increased significantly. EPADU component successful in policy modifications. Initial OCA work effective but not pursued.	Many new NTAE businesses started. Larger firms entered the business. Supported APDF to work with smaller firms.	EPADU's dual role of providing direct assistance to firms and working on the policy environment very effective. Predecessor IDEA more integrated.

Continued

Table 3.2 Summary of Agribusiness-Focused Projects (Continued)

Project (Focus)	Country	Sponsor	Major Objectives	Impact	Opportunities Created	Comments
DHV (NTAE)	Mali	USAID	Increase green bean and mango exports; strengthen producer associations; support NTAE SMEs.	Green bean and mango exports not increasing, but would likely have been worse without the project.	Hold existing market share.	Project M&E difficult to assess.
VOCA (NTAE)	Uganda	USAID	Assist NTAE SMEs, primarily in operations.	Appears positive, but several projects involved in the same activities.	Helped develop the chili business in Uganda.	Better follow-up needed on the results of volunteers' efforts.
Mash East (NTAE)	Zimbabwe	European Union	Help horticulture producers forward integrate and form sustainable associations.	Producer income from vegetables +30 percent and from fruit +10 percent.	Marketing activities are working and being shifted to the associations	Accounting systems/ costs and financing are challenges.
ROGP (NTAE)	Ghana	CFD/WB	Upgrade integrated rubber company in preparation for privatization.	Initial indications good.	New opportunities for private investors.	Functional integrated agribusiness firm making extensive use of outgrowers will be successfully privatized.

analytical input into USAID thinking about monitoring and evaluation (M&E) of agribusiness projects.

Key analytical issues identified in the SOW include the following:

- What are the performance indicators to measure impact and how do they relate to the goal and purpose of the mechanism/project?
- What has been the effect of the project/mechanism on private sector investment levels, export promotion, and people-level impacts?

Specific research questions include the following:

- In what ways do the impact indicators capture innovativeness as distinguished from traditional approaches?
- How do indicators capture the influence of external factors on the project's performance? What external factors influence the choice of indicators? What external factors, if any, influence ongoing data collection?
- How should information be collected to monitor the impact indicators?
- Based on actual performance indicators presently used, what new indicators can be envisioned to more accurately gauge progress and impact of agricultural marketing and agribusiness development activities?

Based on the secondary review of innovative approaches to agribusiness development in LAC and Asia, and on AMIS II's fieldwork in eight SSA countries, not much can be said about the quality and effectiveness of M&E on USAID and other donor projects. Few M&E systems permit the kind of cross-country comparisons needed for serious analysis. The fact that the 1993-94 CDIE agribusiness evaluation team decided to visit a limited number of countries to generate the basic information needed to compare impact in different country and agribusiness system contexts is telling. The M&E paper trail simply did not provide detailed enough information. As a result of the generally limited M&E systems information, this report provides commentary on what does exist, identifies gaps, and recommends needed improvements in M&E systems and information for USAID agribusiness projects in SSA.

3.2.1 Most Common Impact Indicators Used

Impact indicators for USAID agribusiness projects are usually macro (sectoral or subsectoral) and broad-gauged. There has been little attempt to assess the impact of agribusiness projects on *assisted* firms, using firm-level performance measures.

USAID M&E is in an early stage of development, but is more advanced than that of most donors. Substantial opportunity exists for enhancing USAID M&E, especially as related to direct and indirect impact by project component and type of beneficiary, and cost versus benefit analysis.

In general, USAID emphasizes formal M&E systems more than do other donors. The portion of USAID's support that is used to improve a country's balance of payments is coordinated with other donors and the World Bank and USAID uses progress on conditions precedent as an impact measurement. For other donor projects and project-related activities it is quite unusual to use macroeconomic measurements to assess the impact. There are two primary reasons for this: (1) other donors tend to disburse their assistance through local government entities whose performance they cannot control, and (2) other donors' activities are most often broken down into individual targeted projects or activities that have their own set of objectives. Progress on these objectives is usually assessed on at least on annual basis, but not necessarily on the basis of extensive quantitative measurements. Considerations such as the satisfaction level of the beneficiaries and government entities involved in the project seem to play an important role.

Association Performance. There is little evidence of systematic or careful M&E of association activities. In part, this is because many associations are self-financed or at least not financed by donors. When associations or umbrella organizations are financed by USAID, their performance appears to be reviewed informally periodically and formally under project evaluations. There does not appear to be ongoing monitoring of association performance other than taking stock of membership numbers and association activities. At a minimum, USAID and other donors who provide financial and technical support to associations should insist upon M&E that includes the following: membership numbers and breakdown by firm size/type; sources of finance by type; uses of funds by activity and actual versus expected return on benefits; and membership satisfaction with association management and services.

Financial Agency (and Client) Performance. M&E of USAID-supported financial institutions and projects is deficient and limited to conventional measures such as results versus objectives, defined as the number of loan applications, loans disbursed, loan volume (in value terms), outstanding and past due loans, use of loan funds, percentage of women and other targeted borrowers, and sometimes employment generation, foreign exchange earnings/savings, and impact on economic growth. A few projects also include the traditional ratio analyses of liquidity, solvency, and asset quality practiced by most financial institutions.

The M&E of loan portfolios by financial intermediary organizations generally follows internationally accepted financial and accounting conventions. Actual financial performance of some financial intermediaries leaves much to be desired, however, as loan reimbursement rates are low, the ratio of loans to deposits is high, and provisions for bad loans are inadequate.

Fortunately, USAID agribusiness and financial services projects are rarely implemented through government entities. Other donors, whose policy is to work through such agencies, have a very difficult time assessing the results of their efforts because the results are heavily dependent on the effectiveness of the agencies' implementation, over which they have minimal control. This is especially true in countries where civil servants and officers in state-owned banks are grossly underpaid and must work two jobs and/or use their position as a source of additional income.

3.2.2 How Impact Indicators Do Not Capture Innovativeness

There is little evidence from this review of USAID agribusiness projects that USAID or its contractors have been innovative in designing and measuring indicators, or in capturing the innovative characteristics of agribusiness activities, investments, and financial instruments. Most impact assessment feeds into Mission Assessment Performance Indicator (API) exercises, so projects are asked to contribute information that is used to measure performance relative to Mission Strategic Objectives (SOs).

The APIs prepared by Missions for USAID/Washington review tend to be broad-gauged. Without actually visiting a field Mission and extracting information from project officers and contractors, it is nearly impossible for managers of this activity to know how an agribusiness activity has been implemented relative to plan (i.e., in accordance with the project paper), let alone to obtain information on indicators that capture innovativeness. Project-specific M&E information available in Washington tends to be sketchy (minimal) or out of date.

3.2.3 How Impact Indicators Do Not Capture the Influence of External Factors

In this section we define external factors such as rainfall and climatic variations, currency devaluations, international market shifts/shocks, improvements in the overall business and investment climate in a country, all of which are independent or exogenous to a particular agribusiness project or program. USAID-funded projects and programs consider the impact of these factors at times in a qualitative manner, but they do not assess their influence in a rigorous and quantitative way.

Many projects rely on "macro" indicators of performance, such as the increase in aggregate exports, and there is a tendency to state or imply that all or most of the increase, expansion, or improvement in a particular variable is due to the project. For example, NTAE promotion projects often report aggregate export volume and value data for key subsectors, and then use this data to indicate success or failure of a project. To insist, however, that all or most of an expansion in, for example, French bean exports, over the LOP is due exclusively to the project is specious at best and intellectually dishonest at worst.

First, there may have been an established trend toward greater exports over the past three to ten years. Hence, one would expect a further increase in exports over the LOP irrespective of the project, ceteris paribus. What should be measured, therefore, is not the absolute increase in exports over the LOP, but any greater-than-expected (above trend) increase. Second, not all other factors were likely to have been held constant over the LOP. Domestic currency devaluation, typically unrelated to the project, provides a major stimulus to expanded exports as a country's exports become cheaper in international currency terms. Changes in interest rates (affecting investment incentives and the cost of working capital and trade finance), lowering of tariffs and taxes, relaxation of non-tariff barriers to trade, suppression of corrupt behavior, and so on can also have a positive impact on exports. It is very unlikely that increased exports can be solely attributed to one USAID-funded agribusiness project, even if that project (e.g., EPADU of the ANEPP project in Uganda) had a policy studies and advocacy unit.

In addition, it is important to note that agribusiness development projects cannot work with every firm in a particular subsector or industry, and therefore, they cannot affect the performance of all those firms. In some high-profile, successful projects, there may be a hard-to-measure yet positive demonstration effect of project activities. For example, in a project that works with agribusiness entrepreneurs to develop solid business plans for expanding or diversifying their businesses, financial institutions may encourage other agribusinesses seeking finance to follow the model of the assisted firms. This is an indirect impact, which can be stated qualitatively but cannot be precisely measured.

3.2.4 How Impact Relevant Information Should Be Collected

Assisted firms need to be monitored and evaluated closely as a precondition for project assistance. Without their cooperation, trying to quantify the impact of project activities is nearly impossible. Because there is often an uneasy relationship between the donor agency/contract team and private entrepreneurs, obtaining the entrepreneurs active cooperation in supplying, on a regular basis, information that enables close tracking of key indicators is difficult. Private sector recipients are not always willing to furnish detailed financial information to outsiders, however well-intentioned the latter may be, because they fear adverse consequences in the form of higher taxes or more government interference/harassment. Because of the sensitivity of information on firm sales, revenues, costs and profits, and the reluctance of donors/project staff to ask for it, many agribusiness projects rely on easier to obtain secondary data, which are aggregated and include both assisted and non-assisted firms.

AMIS II recommends that USAID-funded agribusiness projects insist that assisted firms, trade associations, and finance intermediaries agree to supply key financial and economic indicators on a regular basis. If the aid recipients are literate, conscientious, and cooperative, they may be able to fill out clear, straightforward tracking forms periodically and submit these to the project implementing contractor or officer, assuming that this information will be kept confidential and only released in the form of summary statistics (totals, means, ranges for particular variables) for the entire group of assisted firms or subsets thereof. Firm-specific M&E data should not be widely shared or reported. Data should be reported for all the firms in an industry/subsector or for several broad classes of firms. In this way, confidentiality is assured and noone's most intimate business secrets are revealed to a wide audience.

In cases where assisted firms lack literate managers or managers who are willing or able to keep accurate records and fill out forms, project M&E staff need to conduct personal, in-depth interviews with key managers and staff. To maintain a more conversational interview style, an M&E analyst will probably want to conduct an informal yet structured interview. Typically, the analyst will use a checklist or an outline of key questions/topics to guide the interview. AMIS II discourages using formal questionnaires, especially if they are administered by enumerators with little business background or understanding. Relying on questionnaires often comes off as canned and unspontaneous. In the hands of all but the most skillful interviewers, they tend to be administered verbatim and with little opportunity for probing, follow-up questions, or lines of inquiry.

By carrying out detailed periodic interviews, M&E analysts will be conducting ongoing case studies. If the number of project beneficiaries is small, most or all of them can be monitored. In most cases, however, a sample needs to be taken. How this sample is chosen depends on (1) the M&E objectives and funding, (2) the size of the population of firms or beneficiaries, and (3) the degree of heterogeneity among those firms. A well-funded M&E component, whose objective is to conduct rigorous impact assessment, will argue for a large sample of firms/beneficiaries, which will most likely be selected randomly from the entire population or from several salient strata (classes/categories of firms). The larger the overall population of firms/beneficiaries, the more likely the sample will be small relative to the population size. In cases where the sampling error is likely to be high, the M&E component might be better served by selecting a purposive sample of firms to represent different but common clusters of firm/beneficiary characteristics. Finally, the more heterogeneous the population, the larger the sample will have to be to capture these differences in a manner that yields information that is either representative in a statistical sense or sufficiently representative in a pragmatic, purposive sampling sense. In the final analysis, though, *random* beneficiary sampling is preferable to project management–guided sampling, which can always be criticized as biased or as evidence of favoritism.

3.2.5 Suggested Indicators

Non-Traditional Agricultural Export Development. Ongoing tracking of African horticultural exports to EU countries should be a high M&E priority, given the proliferation of USAID-funded projects with NTAE components. A central office such as AFR/SD/PSGE/PSD could perform a valuable service to various USAID missions and NTAE projects by monitoring and analyzing EU markets for horticultural products. In addition to tracking EU imports by supplying country (volume and price by season), NTAE projects require ongoing analysis of trends, changes and shifts in consumption patterns and marketing channels, and the competitive position of African exporters vis-à-vis competing suppliers.

The best way to arrive at a valid assessment of competitive position is to interview a sample of EU importers periodically, probably at least once a year. Importers should be asked to rank different African exporters on the basis of key factors such as their reliability as suppliers, how well NTAE products are prepared, packed, and labeled, exporters' ability to meet delivery schedules and specifications, their understanding of the market requirements, and their familiarity with the requirements of the export business. Importers should also be asked about important trends in the business.

Association Development. Effective M&E of trade association performance requires tracking of the following factors or variables: membership satisfaction with association services; membership numbers and dues paid (by type/size of firm); detailing of actual services provided to whom (which members); and specific lobbying successes in effecting policy/regulatory reform and getting the government to make (or contribute to) key infrastructure investments.

A framework for M&E of association performance and impact is presented in Table 3.3.

Small and Medium Enterprise Development. USAID needs to provide additional resources for tracking the business and financial performance of firms, producer groups, and other economic interest groups who receive debt or equity from a USAID-funded agribusiness intermediary. M&E for agribusiness development projects that focus on SMEs must be *predominantly* focused on commercial measurements such as sales and earnings growth, net asset growth, and return on investment for *both* the development entity and its clients. M&E for donor-sup-

Table 3.3. Monitoring and Evaluation of Association Development Performance

Performance Attribute	Performance Indicators	Performance Measures
Growing membership	Number of active, dues-paying members.	Periodic tabulations of members by firm category, level of participation, and whether firms pay dues.
Membership composition	Number of firms in different size categories.	Size distribution of firms by revenue, sales, assets, number of employees, or other criteria.
Sources of funding	Funding by source, with special attention to dues-paying members, diversity of sources, training, publications, conferences, sponsorships.	Dues guidelines and payments by firm size or type. Percentage of funding by source, other than dues.
Association responsiveness to membership	Ways in which association queries members as to their needs and degree of satisfaction with services.	Member needs surveys, types, priority, frequency, effectiveness, and feedback to members. Member satisfaction surveys administered by third party, at least annually. Non-member surveys to determine reasons for non-membership.
Management effectiveness	Management training, experience, and longevity. Number, frequency, and quality of member interactions with management.	Specific job-related training and impact on job performance. Prior (or ongoing) relevant experience. Number of years in position. Member rating of management effectiveness and the effectiveness of services offered.
Association profile	How well known is the association? Is it regarded as a serious organization with clout by government, financial institutions, other associations (including international counterparts), importers (where relevant).	Measures of association profile: (a) informal polling of representatives of relevant organizations; (b) media exposure (trade publication, newspapers, TV); (c) sponsors' (if any) opinions.
Association political clout	Number, frequency, and effectiveness of meetings with key policymakers (high-level access).	Specific examples of association success in lobbying government for policy and regulatory reform and infrastructural investments.
Association effectiveness in disseminating information	Number, frequency, timeliness, and relevance of newsletters, bulletins, reports, seminars/ meetings, etc.	Quality and effectiveness of information disseminated, as judged by members in "customer" satisfaction surveys.
Association effectiveness as a catalyst	Activities to identify buyers (and prospective investors), expand or diversify markets, display products in trade shows, conduct study tours, arrange finance.	Impact of those activities in terms of increased number of buyers, markets (and decreased dependence on one/few markets); more expressions of interest in country/firm capabilities as suppliers, leading to deals; increased access to alternative sources of finance and securing of finance.

ported venture capital funds that target SMEs should be based on financial performance (the fund and that of its investments), as well as on the number of clients served and investments assessed.

Financial Services. Conventional measures of financial project performance need to be supplemented by other measures that provide a broader picture of financial institution performance, how borrowers' operations and profitability are affected by loans/equity, and how the financial institution and its staff are perceived by clients and government agencies.

More detailed information about the composition of loan portfolios, particularly loans to agribusiness firms, would be useful in M&E of financial intermediaries serving agribusiness. Breakdowns of agribusiness loan portfolios by loan size, borrower type/size, and type of loan (short, medium, long term) would be valuable information, especially if obtained on a periodic basis.

USAID needs to strengthen M&E of the financial performance of assisted financial intermediaries in SSA. Key considerations include the projects' (and the intermediarys') financial condition, the range of services offered and whether they are expanding to meet clients' needs, the intermediaries' long-run sustainability, and their ability to adapt and innovate to meet the needs of old and new clients.

USAID should pay more attention to important qualitative measures of the performance of assisted financial intermediaries, including the following qualitative considerations:

- Financial condition of the project measured in terms of its ability to break even and generate a profit ("spread" versus bad debt and operating costs)
- Ability of the financing entity to expand the range of its services and achieve long-term sustainability, relying less on donor subsidies
- Ability to accurately measure the proportion of the portfolio at risk by providing detailed portfolio quality information showing arrears by degree of delinquency
- Innovation and demonstration capability in terms of financial intermediation and diversified risk management
- Responsiveness to clients' expressed needs for financial services
- Image of the project among individual clients, government agencies, and political leaders
- Staff qualifications, adaptability, motivation and turnover
- Quality of management, leadership, and management information

An assessment of such criteria will strengthen the evaluation of finance programs. This new approach can be very informative in that it supplements traditional quantitative measurement criteria and evaluations, providing a clearer picture of project achievements and project sustainability. It also helps provide a market analysis as well as a useful assessment of project operations as they relate to their surrounding economic and political environment. This approach represents a more appropriate framework for what finance programs do and how they should be designed and implemented to achieve sustainability, efficient financial intermediation, and easier and diversified financial transactions.

Over the long term, the ability to sell investments at an acceptable price is also important. Group lending project M&E considerations should include: unit transaction costs, repayment rate, sustainability of the credit entity, growth in the capital base of entities, and the savings rate of members/clients.

Other Considerations. USAID agribusiness development projects often are intended to stimulate firm-level development and often have a term of three to five years, insufficient time to have any significant effect on macro-level economic growth, employment or even NTAE volume. If USAID missions or Washington offices wish to evaluate impacts along macro lines, follow-up evaluations of lagged effects will be required. If such ex-post evaluations are desired and planned, they will most likely be conducted by CDIE-led teams. If agribusiness project M&E systems are effectively designed, housed in a trade association or other self-sustaining agribusiness intermediary, and simple enough to be sustainable, the work of ex-post evaluation teams will be facilitated. On the other hand, government-generated data on exports, employment, and growth are typically released with a lag of one or more years.

Similar to the lagged impact of agribusiness projects on macro variables, training program results should be monitored at the end of the program and six months or more *after* program completion (or perhaps several times at intervals).

The frequency of assistance and the actual contribution made to projects by private sector advisors must be monitored to ensure that project managers are using private sector input efficiently as well as to measure the impact of those inputs.

There are opportunities to enhance the M&E of agribusiness projects or components of projects that support agribusiness development, but it appears that more benefit would be derived from a greater focus on more effective design and implementation than on increased emphasis on formal M&E systems.

USAID should commission independent surveys of the business performance of clients of financial institutions and "customer" satisfaction surveys of members of trade associations. Some key aspects of firm business performance that should be examined include how effectively firms use finance; what precisely they do with the equity/debt; what their results are in terms of throughput, employment, sales, and profits; return on investment and the debt-to-equity ratio; and how well they are able to service the loan. Annual association member satisfaction surveys should rate the quality, effectiveness, and amount/quantity/frequency of various association services, and should rank order member priorities for the coming year.

3.3 LESSONS LEARNED AND USAID IMPLICATIONS

3.3.1 Small and Medium Enterprise Development

There is a strong need for agribusiness SME development in SSA, especially to support *indigenous* entrepreneurs. Agriculture accounts for a very large proportion of both employment and GDP in all the countries studied; therefore, agribusinesses' role in serving and stimulating production agriculture is essential. SMEs often are the most responsive to the changes that are taking place in the African business environment, SME and they usually represent the largest number of agribusinesses in a developing country. Therefore their success is important to the livelihood of a large portion of the population in most developing countries. There is a strong need to increase the role of *indigenous* people in the economies of their countries, but it will be difficult for them to do so without outside (donor) help, given government budget problems. The fact that most SMEs operate in the informal sector should not inhibit donors from providing them with much needed assistance.

There are quite a few donor programs in SSA for supporting commercial SMEs. However, none offer the full range of services required by a fledgling SME, none focus on agribusiness, and none currently operate outside the capital cities. Therefore, their impact on agribusiness and agriculture is minimal. There are PVO-supported rural microenterprise programs, but these seem to represent more social than economic development. However, some of the PVOs, (e.g., CARE) helping to develop commercial SMEs.

APDF, with a USAID financial contribution, has assisted some larger SMEs to do feasibility studies and prepare business plans prior to expansion. APDF's reach is limited, however, given the time and expense to do thorough feasibility studies and provide intermittent technical assistance to firms preparing business plans. It can only work with a handful of SMEs each year, which is an important start, but not enough to have a broad-based impact. In addition, APDF does not provide finance to SMEs; rather, it identifies sources of finance such as commercial and development banks, international companies, and international financial intermediaries such as IFC's African Enterprise Fund, which targets firms needing financing of $0.5 to $2.0 million.

None of the governments of countries visited has a coherent policy or institutional mechanism aimed specifically at stimulating food and agribusiness investment that would help even medium-size indigenous firms, let alone small entities.

Constraints

The most significant firm-level constraints ISMEs face are a shortage of modern management skills, particularly in marketing and cost control, and the lack of equity/collateral, especially in rural areas, where valuation is difficult and there are land tenure problems. Weak management skills are usually a greater constraint than technical skill shortages and make it very difficult for entrepreneurs to manage their businesses in a way that enables repayment of financing. A minimal knowledge of sources for financial assistance (especially working capital) and how to apply for assistance is also a serious problem.

Major institutional- level constraints to SME development are that: (1) there is no focus on *integrated* food and agribusiness ISME development per se (i.e., the integration of marketing, financial, and technological services to address very specific business objectives), and (2) the World Bank and many other donors are required to carry out their SME development programs through government agencies or institutions, which in many cases (especially in Mozambique and Tanzania) are nonviable.

For example, in Mozambique a government-owned development company (IDIL) is used by the World Bank, SIDA, and other EU donors as a vehicle to evaluate and recommend SME projects for funding, via state and private commercial banks. This approach is not working. However, because neither the apex unit at the Bank of Mozambique, the State owned banks, nor IDIL, are screening projects and there has been no serious effort to pursue nonperforming loans. Therefore, default rates are nearly 80 percent and private banks only lend to customers they know well, which usually does not include new or growing SMEs.

Lessons Learned

Government. As governments reduce the holdings in and control of large parastatal agribusiness firms, which is happening to some extent in each country visited, they pay little attention to the entrepreneurial ventures that need to take the place of the parastatals. Where donors are sponsoring private sector initiatives, there is very little, if any, direct resistance to these programs by government entities; therefore, there are many private sector development opportunities that can be pursued almost independently of what the governments are doing.

Financing. SMEs require targeted financial support for expansion or diversification. Self-financing limits their growth because it restricts the amount of working capital available for procurement, operating costs, and export marketing. In addition, it limits available capital for medium- to long-term investment.

SMEs are not well served by financial intermediaries in SSA, in large part because SMEs do not meet strict lending criteria, particularly collateral requirements. In addition, commercial banks, agricultural development banks, and NGO/PVO credit projects do not target agribusiness SMEs. Other commercial sources of equity and debt financing, such as CDC (the Commonwealth Development Corporation) and the French PROPACO (Société de Promotion et de Participation pour la Coopération Economique), are typically available to only the largest, best-managed, and most well-established firms. Many PVO development projects target producer, community-based, and economic interest groups in rural areas, probably largely due to the perception that these groups have the greatest difficulty accessing financial services. Therefore, credit extended to SMEs is limited to short-term loans of generally six months or less. Medium- and long-term finance for investments in plant and equipment is unavailable to SMEs intending to expand or diversify.

Micros, SMEs, and even local government entities find it difficult to pay for anywhere near the full cost of business advisory services, especially those where the provider is not able to leverage expensive staff.

Institutions. If SME entrepreneurs must work with several different institutions to obtain different business support services, such as financing, technical assistance, and managerial advice, the burden on them is much greater, paperwork much more complicated, and coordination problems much more likely than it would be if they could receive those services from one source.

Given the general absence of an integrated package of services to agribusiness firms, several SSA countries are excellent candidates for agribusiness service centers (ASCs) that offer financial as well as other technical and managerial services. While an ASC could play a valuable role in many countries, ASC sustainability would be in large part a function of the underlying economic and agribusiness strength of the country, medium- to long-term sector growth prospects, and the ratio of micro and small enterprises to medium and large clients. However, with support from local and donor sources, an ASC could be a very viable way to integrate the needed SME development services into a single effective entity. Ghana, Uganda, Tanzania, and Mozambique offer the best conditions for ASC development, even though *some* of the functions of an ASC are currently being provided separately.

A more detailed explanation of an ASC and how it can be best established appears at the end of this SME development section (see section 3.3.1.1).

Non-Traditional Agricultural Exports. SMEs when involved in NTAEs to the EU and other high-income markets, tend to ship produce to brokers and importers on consignment, thus assuming all of the price and market risk themselves. Small exporters have essentially no control over export marketing channels with in the EU. To reduce their risks, increase control, and enhance these returns, small- to medium-size NTAE enterprises must negotiate contracts with EU buyers or enter into strategic alliances with EU firms that will advise them on production and postharvest handling techniques, shipping methods, packaging, and other technical matters. In order to have enough volume to capture importers' attention, however, SME exporters must organize, coordinate, and consolidate their shipments. Whether they do this as an exporters' cooperative, through a trade association, or with the help of an export promotion agency representing a particular country's exporters depends on a number of factors, particularly the strength of existing institutions and the willingness of independent SME operators to collaborate. Without organizing, SME exporters are at a decided disadvantage in shipping to EU markets vis-à-vis large firms, which are able to achieve scale economies, invest in cold chain technology, and regularly export significant volumes. EU importers, who are becoming increasingly concentrated to serve multiple countries and large-volume buyers, such as supermarket chains, want to minimize transaction costs and the risks associated in dealing with smaller volume and occasional suppliers, and want to maximize the probability of regular shipments that meet stringent specifications

The conditions for successful smallholder participation in NTAE production are: (a) concentration on niche products where producers have very few alternative buyers for their output, (b) low capital but high labor intensity, (c) a full-service local exporter who supports the business, and (d) a well-established international market with experienced buyers/exporters. Investing project resources in niche market *start-up* industries is risky and very expensive.

Implications

Linkages. Formation of self-help groups (SHGs) is a useful way to leverage development resources aimed at SMEs and in many instances may be the best way to serve the needs of small agribusinesses. Also, SHGs can be linked with large enterprises that can provide inputs, technical assistance, and markets. However, this latter type of activity requires intensive, hands-on management assistance by donors if it is to be successful.

In environments with very few models of successful private sector enterprises, a SME development program that links new entrants to the few successful current participants will increase the rate of SME development by creating more models and mentors. This would include subcontracting relationships and other very localized SME development activities sponsored by successful large private sector firms. There is also a significant need to enhance the cost competitiveness of ISMEs, possibly via training or mentoring by successful entrepreneurs. Without donor assistance, however, achieving significant tonnage sales via SME linkages and outgrower schemes will be difficult.

Financing. For donor-supported projects where SMEs are to be the beneficiaries, financing will likely have to be preferential rate money. Fund management costs will likely have to be subsidized because serious hands-on management support of the investments, both pre-and post-financing, will be needed.

SME development projects with a significant financial component show results most quickly when donors work together, pooling their resources and agreeing on common procedures. For example, applicants would have to satisfy only one set of requirements (fill out one set of forms). While each agency must be accountable for its own resources, they must not encumber the SMEs they assist with "home port" criteria. Whatever the individual donor requirements, jointly funded projects must have *one* agreed upon set of performance criteria, which the donors have either "bought into" (e.g., TDFL in Tanzania) or settled on among themselves.

USAID should consider providing matching grants to large processors and distributors, who are often looking for new sources of labor-intensive crops and products, to enable them to accelerate their outreach by establishing linkages with small producers in rural areas.

Institutions. Agribusiness Service Centers (ASCs) can provide an integrated package of services to agribusiness firms seeking to expand or diversify, and this may be the pivotal and missing link in the support systems serving agribusinesses in SSA countries. Neither the literature review nor the country case studies, discovered any single project or set of donor-funded interventions that served the full range of SME needs. USAID should strongly consider establishing ASCs in promising African agribusiness environments, such as those in Uganda, Ghana, Madagascar, Zimbabwe, Mozambique, and Tanzania.

USAID and other donors can most effectively provide financial assistance to individual agribusiness firms by using ASCs as intermediaries. The track record of commercial and development banks, NGOs, and development projects is poor in serving the financial needs of SMEs because SMEs do not lend themselves to the type of collateral based financial assessment used by most financial institutions. Furthermore, SMEs require several types of assistance, which can be provided in an integrated manner by one agribusiness intermediary organization. Conventional lenders cannot perform this role, but ASCs can.

Programs. Projects that effectively support clients, especially SMEs, at a reasonable cost may have difficulty "graduating" these clients because their needs for business services will expand as their companies grow and face new challenges. Turning these clients over to qualified local consultants would enable the project to expand its coverage and broaden its reach. However, the more developed the client, especially if they are exporting, the more sophisticated their consulting needs. Also, local consultants in these environments are unaccustomed to providing pragmatic business services, especially regarding *ongoing* operations. Therefore, a donor can effectively leverage its resources in these circumstances by focusing on developing local business consulting capacity such local consultant training will likely need to be an ongoing component of an SME development project.

Small, marginal enterprises should not be supported until a serious study of their economic viability is completed. Investing project resources in small-potential (niche) market start-up industries is particularly risky and very expensive.

An institution that helps entrepreneurs prepare a financing proposal and then operate their business in a manner that ensures financing repayment/increasing share values will make a significant contribution toward stimulating the development of new SMEs and the growth of existing enterprises. Therefore, USAID can play a strong by sponsoring activities to help develop and package proposals and business plans for entrepreneurs seeking financing. This could be accomplished via training support and mentoring for local entities interested in providing this service, possibly modeled after USAID-supported training provided to AfDB's new private sector development unit officers. Donor-provided special funds to help SMEs apply for equity investment and to develop local business services capacity represents a *reasonably* integrated approach to SME development.

"Supported" training programs are needed to help entrepreneurs develop their management and financial skills beyond the limited scope of their former positions, especially in economies emerging from parastatal control of agribusiness.

Recommendations

The design of donor-supported agribusiness SME development projects should focus on the following types of activities, for which specific examples are provided:

1. *Building On and/or Collaborating with* ***Established*** *Private Sector Development Entities.* It should be straightforward for USAID in Mozambique to persuade present donors to give *IDIL* responsibility for both operational and funding oversight, *including* equity investment, of an agribusiness serce center. SAEDF should explore using IDIL to screen enterprises for equity investment in concert with some debt. Venture Capital Funds in Tanzania, Ghana, Uganda, and Zimbabwe are well controlled by their boards and donors. Therefore, USAID and SAEDF should consider involvement with these operations and their donors to help USAID become familiar with private sector financial services facilitation. In most SSA countries, there are potential partners that USAID could work with to support ISME development projects; for example, the World Bank has a substantial private sector investment fund that is often underutilized.

2. *Facilitating Large Processor to SME Linkage Projects*. In Zimbabwe, two of the largest processing companies (Hortico and the Selby's) are actively working with small growers to develop new sources of higher value, non-traditional food exports. Appropriate donor support could accelerate establishment of subcontractor arrangements by both new landowners and communal producers. This would involve extension personnel, cold storage, trucks, and so forth. In Mozambique, where the private sector is just reviving after the long war, the USAID Mission has already provided funds to a cashew processor to make cashew trees available to small growers to replace those damaged by the war and a recent hurricane. A large coconut grower and processor would also like to develop, in collaboration with smallholders and present plantation employees, a wood harvesting and processing enterprise to reclaim land (cut down the old trees) for new planting. There are likely to be more projects like these in most SSA countries. More specific investigation should be undertaken and plans of action formulated with the local Missions to capitalize on these broad-based benefit, big firm to SME agribusiness linkage opportunities.

3. *Overcoming the Lack of Entrepreneurial Orientation and "Knowledge of Business" Gap.* One common theme that runs through this activity is that the conversion of each economic sector to one *focused on markets* and private enterprise cannot be ordered from above. Citizens, who in the past have been cautioned against such ambitions, now need help to refocus their outlook. They will have to be reassured that what they do on their own initiative does not necessarily lead to political or economic sanctions (i.e., they must understand that private enterprise is "favored" by the government). Donors also must determine how to help focus management training on specific high-opportunity because the more specific

the training to the entrepreneur's enterprise, the more successful it is; and that facilitates future understanding and acceptance of broader market principles.

4. *Selecting and Using NGOs and Other Appropriate Partners.* In Zimbabwe and Mozambique, CARE and one or two other NGOs appear to be operating effectively. For example, in both countries, CARE is developing self-help programs that involve both communal cooperation and pay-as-you-go operations. CARE is interested in promoting private, rural development. With USAID support, and possibly AMIS II participation, *rural* agribusiness development programs could be established with these NGOs to assist start-up SMEs in such areas as further processing and distribution of local production and improved inputs (e.g., seed). The selection of an NGO in which the USAID mission has confidence, and further discussion with them of the various options, would be a first step.[2]

In summary, donor activities designed to support and stimulate the development of SMEs should consider the following:

- An integrated services approach is necessary. This necessitates an extensive network of alliance partners who can provide the broad range of services needed.
- An integrated resource intensive approach, with significant leveraging capacity. This would include involving several donors who can contribute financial assistance as well as design, implementation, technical, and managerial assistance; extensive private sector input in both project design and implementation; and development of local consultants to the point where they can competently provide services (particularly as related to marketing and cost control) on an ongoing basis.
- Technical support to SME entrepreneurs to develop highly functional business plans for operations and to use that plan as the basis for an application for financing. This component should be part of the services package offered.
- Close monitoring of and proper mentoring for clients, especially *after* financial assistance has been provided.
- It is unlikely that an entity providing services to start-up, micro, and small clients can ever become self-supporting.

M&E for this type of project should focus on the financial success of clients, the number of clients assisted, the employment generated, and how well the project is able to meet its own agreed budgets.

Agribusiness Services Centers

Support to a wide range of agribusiness SMEs, including firms that serve domestic, regional and international markets, can be provided by several different types of intermediary organizations, but Agribusiness Service Centers (ASCs) have many advantages. There are two types of ASCs agribusiness incubators and food and agribusiness development centers (FADCs).

An agribusiness incubator focuses on *start-up* and embryonic businesses and may offer shared office services and/or shared equipment to clients as well as managerial and technical assistance.

FADCs concentrate on agribusiness enterprise promotion, providing an *integrated* package of services to *existing* SMEs that seek to enter new markets, expand production, and diversify their product mix. These services include technical assistance in business planning, market research and intelligence gathering, marketing, and financial management. An FADC will also access specialized technical services in production technology and management, information systems, and functional areas of marketing (such as postharvest handling, storage, transport, processing) through an established service network. Finally, and unlike most incubators, FADCs can provide financing to SMEs in the form of equity and/or debt.

As specialized forms of agribusiness service centers, the conceptualization of FADCs and agribusiness incubators and formulation of the precise mix of services they provide are a function of local conditions, supporter objectives (e.g., stimulating start-ups versus moving established firms to the next level), and the priority needs of potential clients. AMIS II staff with significant private sector agribusiness development experience feel strongly that ASCs can play a positive and catalytic role in SME development and promotion in SSA.

The success of an ASC will be enhanced significantly by donor attention to the following considerations:

a. Where possible ASCs obtain financial, legal, and other needed support services (often pro bono in the United States) and pool them in a common facility or operation. This approach is being incorporated in the British-sponsored LAKE project in Tanzania.

b. Enterprises are monitored very closely from initial feasibility exploration until they reach profitability. They are held to objectively measurable performance milestones expressed in terms of time, budgets, output, sales, and so on, which, if not achieved, can terminate any funding commitment. Whatever their socially redeeming values, enterprises are judged strictly on a business development or commercial basis because that is the basis that will determine whether they succeed or fail. A labor-intensive enterprise that fails employs no one, and an infrastructure project that goes broke benefits no one.

c. Because business development centers are usually part of a broader local, regional, or national economic development plan, their long-term objectives are usually to achieve a break even point, where revenues are equal to operating costs, within a five-year period. Their goal is to become self-sustaining through positive cash flow received from rents, royalties, licenses, a spread on loans, and modest sales of small equity holdings in the supported ventures. This is in contrast to the traditional venture capital objective of realizing an average 30 percent annual return on investment from a portfolio of new enterprises.

d. Development center investors usually have broader objectives and are usually more "patient" investors in venture capital. For example, the initial financial supporters of development centers are often:

   "Benevolent donors" interested in the overall, long-term economic development of the area, region, or country. These typically consist of grants and seed capital funding by foundations, major banks, and local or national governments.

   Companies (including venture capital firms) interested in obtaining a window on the center's operations, usually with an eye toward contracting with or investing in promising individual enterprises.

   Government pension funds, whose investments may be carefully limited to not more than 4–5 percent of total investable assets. Funds may make such investments in part to stimulate local economic development and employment.

e. Management of a development center is vested in at least one senior *experienced* individual, with a distinguished business record, who maintains *day-to-day* operational oversight of each venture. This person is also responsible for analysis of entrepreneurial proposals and recommends enterprises worthy of support to the board or funding committee of their incubator/development center.

f. Entrepreneurs, who are notoriously independent and opinionated, rarely recognize or acknowledge when they have failed to put together a credible management team or practicable business plan. Development center management is expected to work stepwise with each entrepreneur, helping them to develop an investable plan, balanced management team, and sustainable operations.

In short, the rigorous discipline, particularly financial, that entrepreneurs are continually subjected to in ASCs is just as appropriate for entrepreneurs in developing countries as it is for entrepreneurs in the United States. This monitoring and mentoring process explains why incubator/development centers typically achieve an 80 percent success rate with the enterprises they sponsor and assist.

To optimize the prospects of ASC success, USAID needs to abide by the following principles:

- Decisions about SME products and production technology must be driven predominantly by *market requirements*. Production needs to be market-demand driven.
- Assistance to nonestablished exporters should initially concentrate on successfully selling to domestic and regional markets. SMEs need to meet the somewhat less rigorous requirements of these markets before taking on challenging international markets.
- ASCs will only succeed if donors cultivate private investor and key public agency support and *ownership* of the ASC. Foreign resources alone can never create a sustainable ASC; half or more of the start-up resources should come from local sources.
- ASC development requires an appropriate mix of expatriate specialists and experts in incubator/ business center development, as well as local business consultants. Relying too heavily on expatriates will not result in a sustainable ASC.
- Start-up requires a minimum three-year resource commitment, as well as flexibility to respond to the changing needs of SME clients for information, technology, TA, export marketing management assistance, and financing.

3.3.2 Financial Services to Agribusiness

Based on secondary research conducted as a part of this activity, a key function of an ASC is to maintain networks of professional service providers, which include financial institutions such as commercial banks, agricultural development banks, credit unions, venture capital funds, and other financial intermediaries. Because access to financial resources is typically a major constraint SME expansion or diversification, one-stop shop intermediary organizations such as ASCs must place a heavy emphasis on providing needed financial services. Given the reluctance of conventional financial intermediaries to loan funds to agribusiness firms, particularly SMEs, which are not well-collateralized, ASCs must include an in-house financing (debt and equity) component. Hence, ASC managers and some board members will need to have strong finance backgrounds and be able to mobilize both equity and debt to finance SME expansions *and* to integrate finance with technical and managerial assistance.

Financial institutions in the countries covered in this report offer varying degrees of support for agribusiness development and agribusiness credit facilities, but they share one common characteristic, the omission of certain types of credit such as export financing and/or weak credit systems in general. This situation results from the conservative approach to credit by local financial institutions, and their perception of agricultural credit as high risk. This perception reflects the possibility of disease, drought, and other natural events as well as the lack of structured production, processing, and marketing systems on the part of borrowers. In addition, the typically informal management style and systems of agribusinesses do not inspire confidence in bankers, and unless entrepreneurs are willing to change, credit will not be forthcoming. Even if such changes take place, access to credit is not guaranteed.

Under such conditions, a well-targeted, donor-supported model or prototype project that combines management, technical assistance and training, and dedicated credit facilities is likely to achieve a demonstration effect by generating credible results. The fundamental objective of such a program would be to stimulate the profitability and sustainability of carefully selected entrepreneurs who could therefore become eligible for bank credit before the termination of the pilot program.

In the francophone countries studied, the Banque Centrale des Etats de l'Afrique Occidentale (BCEAO) regulates financial institutions, particularly commercial banks, in a way that greatly limits credit to agribusiness. Interest rate ceilings (often below domestic inflation rates) imposed on banks are especially constraining, providing incentives for them to invest heavily in higher paying treasury bills, to remain relatively liquid, and to under invest in productive, rural, or agriculture-based enterprises.

Donor-supported financing is significant in several SSA countries. EU donors' and PVO/NGOs' micro financing and World Bank financing are often the only formal sources of finance available to SMEs. Donor-supported financial institutions rarely focus on agribusiness, however, and although the commercial financial sector in the more developed countries usually offers a broad range of services, it almost never focuses on agribusiness SMEs.

The basis of successful credit projects sponsored by USAID and other donors such as CDC in SSA has been a business-like orientation that emphasizes strict management of the credit function and the responsibility of private borrowers for the payment of their loans. Although APDF only brokers loans and equity investments, it submits its applicants to a rigorous screening before assisting a firm to develop a "bankable" business plan and gain access to funding from local or multilateral financial institutions. CDC, which operates much like a private financial institution that is required to meet stringent return-on-assets objectives, applies the same scrutiny and discernment in its direct loan and equity funding decisions. Consequently, loans sponsored by APDF and CDC are made to a small number of relatively large and well-established agribusiness enterprises. However, the average financing arranged by APDF is $1.3 million per enterprise. CDC's average loans and investments are $4 million.

The ACEP project in Senegal, which was started by USAID, has achieved operating self-sufficiency in extending short-term loans with a maturity of up to eight months to smaller private enterprises engaged in trade, services, agriculture, and other activities. Agriculture accounts for 15 percent of ACEP's loans, which provide a vital link between rural producers and small processors of agricultural products on the one hand, and marketing intermediaries in urban centers on the other. ACEP's results were made possible by a radical change in credit policy and operating procedures starting in 1989. This change involved taking a business-like and selective approach to loan applicants deemed acceptable credit risks, extending larger loans, establishing fourteen branches with a minimum staff and a head office in Dakar, carefully monitoring outstanding loans, pursuing an aggressive loan recovery policy, and setting interest rate levels sufficient to cover operating expenses, including bad loan reserves but excluding the cost of capital. This model of a selective approach to small enterprise credit, coupled with strict loan monitoring and recovery procedures and non-subsidized interest rates, could be expanded and/or replicated by USAID and other donors in other SSA countries.

Donor-sponsored finance projects essentially use four channels for the delivery of financial services: the creation of targeted loan funds, the brokerage of loans and equity investment through local banks and/or multilateral financial institutions, the provision of seed capital for the creation of venture capital funds, and the availability of credit lines to local commercial banks.

Constraints

The major constraints to agribusiness lending by financial institutions are the shortage of commercially viable projects and poor loan and investment "packaging" by the borrower, *not* the lack of available funds. Therefore, technical assistance should be included in any donor-supported agribusiness finance project and should include at the very least support for business plan development and loan or investment "packaging."

Lack of access to financing is widely believed to be the greatest *initial* constraint to business formation and expansion for all but the largest firms.

Lack of entrepreneur experience and equity, inadequate bookkeeping practices, and the lack of know-how to develop satisfactory financing proposals and the associated business plans are major constraints to financing agribusiness SME ventures, and therefore limit the ability of donors to disburse development finance to these firms.

Difficulty in identifying investable projects, not the lack of finance, is the major constraint to donor-supported financial services projects focused on ISME development (i.e., investable ideas are a greater constraint than available financing).

Lessons Learned

Because the lack of access to financing is widely believed to be the greatest *initial* constraint to business formation and expansion for all but the largest firms, there is a major need for financial services to support SMEs, especially in countries (Tanzania and Mozambique) where the commercial financial sector is nearly nonfunctional, at least for SMEs. Without financing support, the agribusiness sector will not develop in these countries, and therefore the development of agricultural sector will be inhibited.

Experience in SSA has often found that donor credit lines remain largely unused even when they are coupled with guarantee schemes designed to induce a higher degree of participation by local commercial banks.

To achieve measurable *economic development* progress, USAID and other donors should continue to sponsor finance programs targeted to accelerate the development of medium and large indigenous privately owned businesses. This medium- and large-firm focus approach contrasts with that of the Cereals Market Reform Program (PRMC) in Mali, where the lax management of direct and guaranteed loans by commercial banks has resulted in unsatisfactory reimbursement rates. In the Kaolack Agricultural Enterprise Development Project (KAED) in Senegal, there is an *ambiguous* relationship between development objectives and the promotion of viable agriculture based enterprises in an arid region. KAED's assigning a pivotal loan extension and monitoring role to CNCAS, a weak financial institution with a record of poor credit management, casts doubt on the future rate of loan recovery.

If credit delivery programs are to be successful, they must be designed to be cost effective. In this regard, ACEP stands out among all the projects surveyed in this report. After a very difficult start, the project was restructured to reduce organization and overhead costs and yielded a small operating profit for the first time in 1991. However, other credit delivery programs, such as the one operated by TechnoServe in Ghana, are burdened by high operating expenses unlikely to be fully covered by the interest income of a relatively small, albeit innovative and well-managed, loan portfolio.

Equity/collateral limitations are the major *initial* constraint to both micro and ISME formation in emerging private sectors. Thus, projects that allow sweat equity and in-kind contributions to equity by entrepreneurs will help offset this constraint, although they will not enable them to overcome it. Government guarantees for initial entrepreneur equity may be a source of assistance, but if such assistance is provided, it must be closely monitored by project management to make sure the borrower understands that the loan *must* be repaid. In the past, financing involving the government was not repaid.

Enabling Environment. A major finding derived from this study is that financial sector policies and regulations are extremely important for agribusiness development. Without a reasonably liberal and open financial sector, agribusiness development tends to be suppressed, no matter how well-intentioned and professional the efforts of individual financial intermediaries. Furthermore, a liberal and unshackled financial sector tends to go hand-in-hand with more open and progressive economies, such as those in SSA countries that have implemented structural adjustment programs, liberalized trade regimes, and adjusted their exchange rate periodically to reflect its real value.

A liberal and transparent financial sector, with limited controls and restrictions on interest rates, foreign exchange, capital transfers, and use of funds is a prerequisite to successful financial intermediation in support of agribusiness development. [In some West African countries, particularly francophone countries, USAID and other donors should concentrate first on liberalizing and opening the financial sectors.] Removing restrictions on interest rates, capital transfers, and credit use will help eliminate disincentives to providing financial services to agribusiness firms.

Venture Capital. USAID was a catalyst in the creation of the first venture capital fund in Ghana and West Africa, outside of Nigeria. USAID provided technical assistance and the funds necessary for the first eighteen months of operations of the Ghana

Venture Capital Fund (GVCF). GVCF is on its way to operating self-sufficiency, is diversifying its portfolio and mobilizing local sources of equity funding. The same approach could be used to fund regional venture capital organizations.

The lack of debt financing and entrepreneur equity are both important constraints to the success of *venture capital* projects. Other important factors that limit a venture capital fund's ability to invest its available resources include entrepreneurs' lack of familiarity and comfort with the concept, inadequate recordkeeping practices, the unavailability of exit mechanisms, and restrictions on client size, business sector, or owner nationality.

Pure venture capital entities are inappropriate for supporting the *start-up* stage for most SSA businesses, for the following reasons:

1. Venture capitalists take an inordinate amount of a supported firm's equity and, for a high risk or less than spectacular pay-off possibility, they often require entrepreneurs to give up both management control and majority ownership. Such loss of control of ownership in developing countries would be too reminiscent of prior regimes' command-control policies to be accepted by entrepreneurs.
2. For developing economies entrepreneurs to be successful, they would require consultative support services which are rarely the case in the traditional world of venture capital.
3. Even though a risky strategy, pure venture capital relies on public markets to "take-out" the recovery of invested capital and achieve a substantial return. However, in SSA, even though public stock markets are nascent, there is no developed market for initial public offerings, nor are such markets expected to be in existence in the foreseeable future.
4. The approach of donor organizations, which are the major supporters of entrepreneurship development in developing countries, can be antithetical to the way venture capital managers analyze enterprise potential. Donors assume entrepreneurs are competent and accountable and, therefore, exercise lax oversight. This is contrary to how venture capital management operates with tighter day-to-day oversight and financial control.
5. The level of funding needed by an individual SME for start-up or expansion is typically much lower than the amount of investment made in any one firm by venture capital funds. Further, venture capital funds traditionally do not fund start-ups.

SMEs. Finance is one of the most important missing links in the services provided to SMEs. Donors can help SMEs identify and apply for sources of financing, especially working capital, at a reasonable cost by developing and supporting the services of specialized local business consultants to appraise and "package" small projects. Normal collateral requirements for SME loans can be relaxed if the loan officer has a good understanding of the commercial requirements of the applicant's business rather than just a strict profit-and-loss/balance sheet orientation. Full cost recovery for SME (and certainly micro) financial services is very difficult.

Operations. To ensure high repayment ratio, a rigorous application appraisal by the lender (a feasibility study if the project is large enough to support the cost) is necessary, and the *borrower should supply a minimum of 50 percent of the equity* in the venture. In many cases, it is advisable for the lending institution to make direct payment from loan proceeds to the major suppliers of equipment to avoid misuse of the borrowed money.

If agricultural credit projects are to yield acceptable reimbursement rates (e.g., 90 percent or higher), design of credit delivery systems must be based on sound credit management guidelines. Marketing outlets must exist and be tapped effectively. This principle was effectively demonstrated by TechnoServe, which has financed oil presses to community cooperatives and producer groups and has financed cereal banks in Ghana. CARE also created a small number of viable village cereal banks in Mali. The basis for the financial assistance provided to rubber and palm oil tree firms in Ghana by Caisse Française de Développment (CFD) was the assured export market for rubber and the captive local market for palm oil represented by Unilever processing plants. Moreover, TechnoServe and CARE proved that reimbursement rates in agricultural credit can be very high, provided that loans are extended after *careful analysis*, and that they are well collateralized, *monitored regularly*, and collected promptly.

Financial services organizations such as APDF, which work with *larger* borrowers, can afford to do more complete feasibility studies, have less difficulty sourcing funds, and incur lower (than for smaller projects) transaction costs as a percentage of financing value.

Loan officer knowledge of the geographic area, the references of the borrower, and the business being financed is essential if financing is to be provided on bases other than collateral. Lending on criteria other than collateral also requires specially trained loan officers, preferably with an in-depth knowledge of the market they are serving. Such a neighborhood networking approach for screening small loan applicants works, and it should be even more effective in rural areas where everybody knows everybody.

Professional management and a very clear focus on asset growth and return on investment will have a very positive impact on economic development projects, even without subsidization or grant-based assistance. EDESA is a model for this principle, given its success in SSA.

Checking the veracity of project proposals, especially as related to market share assumptions and the marketing plan, and hands-on mentoring and oversight management *after* financing are critical to the success of an agribusiness investment, particularly in rural areas.

Financial development projects that require borrowers to have a low debt-to-equity ratio will find that there are few investable projects available in private sectors, which are in the early stages of development. Convertible debt and income notes, along with loan officers who have a good understanding of the applicant's business, will help reduce this constraint.

Loans granted through state-owned banks, even when commercially oriented entities do the feasibility work, are often not repaid due to borrower and bank management have lax attitudes about repayment of government-related debt.

Francophone Countries. Francophone financial institutions are conservative, risk-averse, and constrained by regional (franc zone) interest rate ceilings.[3] Loans are concentrated in housing, industry, and other urban-based enterprises. Agriculture is correctly perceived as risky, given the uncertainty of rainfed agriculture, particularly in more arid countries (in the Sahel) and semi-arid northern regions of coastal countries. Agribusiness firms therefore must provide evidence of collateral; character-based lending or providing loans on the basis of cash flow are not standard practices. There is some group-based lending to farmer organizations and economic interest groups (GIEs), which is designed to spread risk and lower loan processing transaction costs. Francophone financial institutions focus on short-term finance and generally do not extend long-term credit (over one year), yet agribusiness investments often take five to seven years to provide a positive return on investment. There is an almost complete absence of formal domestic sources of finance serving private sector agribusiness investors in francophone countries, but the informal market is vibrant.

The regulatory environment needs to change dramatically in the francophone countries studied if they are to achieve the level of success achieved by Ghana in promoting agribusiness development. Such regulatory changes are difficult to achieve, however, because financial and monetary policy is made at the regional level, and the individual francophone countries lack autonomy to make changes.

Implications

Financial services by themselves will not stimulate economic development as successfully as *integrated* financial, managerial, and technical assistance services. That is, while reasonable availability of funds will stimulate micro and SME *formation*, TA and management assistance will likely be needed for them to be successful.

Although production agriculture and basic literacy/numeracy training are important development activities, they should not take precedence over financial services development.

Loans are not gifts and must be *managed* so that they can be repaid as agreed. When a donor provides funds to a financial institution, it should also determine if it is necessary to train loan officers in how to evaluate loans to agribusinesses. Donors should also make funding contingent upon the financial intermediary hiring professionals with business management experience as loan officers to serve agribusiness and other poorly collateralized subsectors. This would be one way to make loan evaluation criteria become increasingly based on the agribusinesses' ability to generate revenue and service debt.

Group Lending. Smallholder transaction costs and repayment ratios are marginally affordable for even well-managed institutions. Group lending via intermediaries (such as NGOs) appears to be one way to control these costs. The optimal group size for group lending is 10 to 25 members. Group lending can also help overcome collateral problems that arise from communal land ownership. Community-based group lending programs are an alternative to local traders' control of commerce, cash flow, and informal lending. But, for group lending projects to succeed in societies evolving from socialist models will require much education and training.

NTAE. In countries where USAID is sponsoring a project that provides services to export-oriented agribusinesses, the project should provide finance to at least export-focused SME beneficiaries, through either a financial intermediary, which could be an existing contractor with a successful track record, or through an integrated services organization such as an ASC.

Design. In designing future projects, special attention must be paid to their cost effectiveness. The level of annual operating expenses should be dramatically less than the volume of loans disbursed or the amount of assets used. Economic cost-benefit analysis will help donors prioritize their activities and projects. At the same time, the projects must operate cost effectively so that donors can make better use of their increasingly scarce resources.

For optimal effectiveness and efficiency, as well as for making the most rapid progress, *existing*, well-managed financial intermediaries with a good track record should be used for new donor- supported private sector development programs.

Cooperation among donor-supported debt providers, equity providers, and TA projects with similar objectives (e.g., TDFL, TVCF, and TBC in Tanzania) should be pursued by donor-supported financial services projects.

All credit projects should include a savings component, to be used as a source of capital for loans.

Programs. The addition of a credit fund to existing NTAE development projects (e.g., TIP in Ghana, APEX in Mali, and KEDS in Kenya) would enhance the projects' effectiveness and would help USAID meet its objectives to promote NTAE and to increase the value-added of specific subsectors.

Venture Capital. If USAID supports new venture capital entities, it should insist on an up-front investment of at least 50 percent of total project costs by private African investors and banks. The experience of SEINVEST in Senegal proves that local investors and banks are willing to invest in a venture capital firm and take advantage of selective opportunities for promising long-term equity investments in local manufacturing and agroindustrial enterprises.

High-quality management and support from a donor who is *experienced* in business development and finance in developing countries will make a major contribution to the success of a venture capital project. New venture capital projects should investigate the experience of other USAID venture capital projects, especially in SSA, before finalizing a design.

Group Finance. Defaults on loans to SMEs can be minimized by specialized TA and training at a group level supplied through associations or self-help groups. One feature of group-based training should be how to match earnings streams from a financed activity to the funds needed for repayment of the loan. This will help overcome the problem of the gradual decapitalization of an SME in order to meet loan payment schedules.

Operations. The management team of a financial services entity needs to be involved with either a large single fund/institution or several funds/institutions to spread the high cost of their services and keep the cost from being a burden on any one project. Given the high cost of high-quality fund managers, a regional fund (debt and equity) would enable better leveraging of management.

Donor activities designed to support and stimulate the development of agribusiness financial services should consider the following components:

- Training for loan officers to help them assess financing applications on bases other than the borrowers' balance sheet or collateral.
- Assistance for borrowers to develop viable business plans and financing applications based on those plans, and ways to enhance post-financing follow-up and support. This will mean providing management and technical services to clients.
- Creative and flexible products such as sweat and in-kind equity, income notes, convertible debt, and others.
- Group lending for small borrowers.
- Use of *existing* successful institutions where possible.
- Providing multidonor support to overcome the constraint imposed by the minimum size project needed to afford top-quality management. Consider giving managers responsibility for multiple projects/funds in one country or regional projects/ funds.

The M&E of financial services projects must be very commercially oriented (i.e., focused on asset growth and ROI/ROA).

3.3.3 Association Development

Association development is an important feature of civil society. As a form of special interest group, associations can lobby government for policy and regulatory reform, infrastructure investment, and favorable tax and legal treatment, and serve as a private sector watchdog that monitors the implementation of government policies and regulations.

In SSA there were very few instances of donor assistance to agribusiness, or agribusiness-related, associations. Most that did receive assistance received it from USAID to support NTAE development. EU donors generally support chambers of commerce, which usually consist of urban-based traders.

Examples of USAID support for agribusiness associations include the following: USAID supported The Business Center project in Tanzania, which helped an NTAE association (TANEXA) get organized; support to the Uganda Oilseed Processors Association (via CAAS) and some extension services assistance to the Uganda Vanilla Growers and Processors Association; and organizational and technical support (through the TIP project) to the Federation of Associations of Ghanaian Exporters, an innovative umbrella NTAE development association in Ghana. USAID is considering support for reorganizing the Horticultural Promotion Council in Zimbabwe.

A variety of associations were visited and profiled in an attempt to understand the existing climate in each country and to extract lessons and implications for future agribusiness association development activities.

Constraints

The main constraints to agribusiness association development success are the legacy of former governments' control of cooperatives, the tendency for producer-based associations to be concerned only with production issues, the low level of training (especially financial) and part-time status of most association management, members' lack of finance and financial viability, and difficulties association management has in determining members' priority needs and in developing programs to effectively serve their *highest* priority needs.

Post-project sustainability of agribusiness associations is a major problem. The charter and objectives of supported associations are often too ambitious, leading to suboptimal performance. In a developing country or transitional economy that lacks a history of association formation and continuity, *longer term* nurturing of associations may be required in order to achieve agribusiness project objectives.

Therefore, while association development can be an important contributor to agribusiness development, strengthening SSA business and trade associations will be a long-term process. Donors, governments, and private sector operators should not hold too high expectations of what associations can and will be able to do to assist agribusiness development in the medium term. Expectations regarding what business and trade associations can achieve must be tempered by budgetary realities, the typical phenomena of subsector associations having a limited number of members, and the fact that small firms are only able to pay modest dues.

Subsector-specific associations are typically weak and unable to raise sufficient funds to mount an active program, especially when their members are primarily SMEs. However, donor-supported strengthening of agribusiness associations can contribute to successful agribusiness development, particularly NTAE promotion.

Lessons Learned

General business associations in SSA are numerous and active, and for the most part view themselves as lobbying bodies to advise the government on appropriate steps to take to strengthen the private sector at large. However, they often lack professional management, are weakly supported by their membership, and perform suboptimal lobbying and information dissemination; although many associations are aware of these problems and shortcomings and are working to strengthen themselves. Also, existing associations tend to be dominated by large commercial and foreign enterprises and retail traders rather than local manufacturers or processors.

Most existing general business associations do not focus on agribusiness and in fact under represent agricultural and agribusiness firms. However, they can lobby government for policy and regulatory reform, work with government to create a positive enabling environment and investment/business climate, and encourage government to invest in necessary general infrastructure (roads, ports, telecommunications) and perhaps industry- or subsector-specific infrastructure (cold storage at airports and ports, refrigerated rail cars where government owns the railway, etc.), nearly all of which, if successful, will help agribusiness firms.

Agribusiness association development in SSA offers considerable positive impact potential because associations can be an effective and efficient means to help indigenous, small producers, and SMEs help themselves, and a leveraged way to support the development of high-opportunity subsectors. Successful associations eventually will become self-supporting.

Well-focused *and well-managed* associations can bridge the gap between small farmers/agribusiness firms and the complexities of NTAE markets. SHGs of small farmers and/or entrepreneurs, who in turn belong to a donor-assisted association, are a good way to leverage scarce donor TA and financial resources.

Associations are not likely to develop until an industry gets beyond the embryonic stage; that is, association development tends to *follow*, not *precede*, industry development.

Association organizers need to be aware that there are trade-offs with regard to size and scope of associations. “Voice”—the impact that association positions can have on policy—usually requires a large membership, but an association can more effectively provide services to its members when it has a narrow focus, such as on flower exporting.

In industry associations that include both large and small members, the “big tend to pay while small tend to use” is a problem that can weaken or destroy the association. Therefore, a degree of homogeneity in the size of member firms is desirable.

Vertically integrated producer/processor associations provide donors with an opportunity to successfully support NTAE development while reaching small-scale farmers. This type of association is *most* effective when the exporters are few in number and work with relatively large-scale outgrowers, permitting a more cost-effective working relationship.

NTAE association group lending schemes often do not require large amounts of capital because members' export volume is usually quite modest, especially for fledgling NTAE associations composed primarily of SMEs. Proper cash management techniques can help reduce the total amount of working capital required.

Despite the mixed experience working with associations, USAID should continue to support association development as an important component of agribusiness development programs. Associations can play a positive lobbying function, and their emergence is evidence of the healthy evolution of a vital form of interest group in civil society and democratic participation in and input to government. As associations mature and increase funding sources, they can also take on industry-or subsector-specific training, market intelligence gathering/dissemination, and technical assistance functions.

Implications

While a project can work directly with private agribusinesses, supporting an effective association should enable a better return on scarce donor resources.

Planners of business association development projects must determine at the beginning of a project if the conditions exist for association success and what type of programs are needed to stimulate that success. Association success criteria are: (1) strong leadership with a long-term commitment, (2) leadership that is trusted by members, donors, and government, (3) minimal government influence, and (4) a clear and relatively narrow focus. Associations will become self-sustaining only if they are effectively and efficiently serving their members' *priority* needs. A minimum score on an annual membership satisfaction survey, conducted by a third party, should be a condition for continued donor support of an association. Guidelines need to be developed to assess an association's potential for success and to monitor how effectively it is serving its members' priority needs. This process has been initiated by the AMIS II project.

Training on how to manage associations, especially financial management and how to develop or adapt programs that respond to members' evolving needs, is a high-yield donor contribution to association development. Therefore, management training should be a component of USAID programs to assist associations.

While USAID may be tempted to provide full-time management and technical assistance to narrowly focused commodity- or industry-specific associations, this is usually misguided because it raises members' expectations for services to an unsustainable level. Instead, such assistance is better targeted to umbrella organizations. Intermittent, well-defined, and focused TA should be provided to member associations, including association members (e.g., training workshops) and association management. AMIS II, through its industry contacts and member trade associations, can access high-quality TA for association management and members in a wide array of special skill areas.

Matching grants for association (or other institutional) development activities are an effective way to stimulate member involvement and commitment.

Association-sponsored and donor-supported group lending is a viable way to overcome members' very substantial financing constraints. In many cases this can be accomplished with a relatively small amount of funding or guarantees. However, the sponsoring donor will have to help association management develop and administer the group lending program, especially follow-up on borrowers.

Donor activities designed to support and stimulate the development of agribusiness associations should consider including the following components:

- Provide assistance to help establish the priority needs of members and potential members and to develop programs that serve a limited number of their *highest* priority needs.
- Help train association management in how to

manage a sustainable association with a focus on sources and uses of funds, maintaining positive member relations, and effective lobbying.

- Encourage a vertically integrated structure involving producers, packers/processors, exporters, and others to enable a greater number of members and better industry coordination.
- Assess a multilayer structure wherein small groups of producers form SHGs, which in turn belong to a subsector association, which in turn belongs to a sector association. This will enable donors to support the umbrella association, which can in turn support and develop the levels below it and can afford professional management, and which will have a greater "voice" due to the total number of members it represents.
- Evaluate group lending and market information for high-priority service possibilities (as defined by members), especially for associations composed of SMEs. However, group lending must be very carefully managed.

M&E for association development projects should focus on the success (as defined by members) and progress toward sustainability of supported associations. The results of an annual membership satisfaction survey, conducted by a third party, should be one of the most important criteria for continued donor support of an association.

3.3.4 Non-Traditional Agricultural Export Development

More than 50 percent of the imported vegetables sold in the EU, the main market for SSA horticultural (and floricultural) exports, are imported by wholesalers for the large supermarket chains. These chains have very strict quality and phytosanitary specifications, explicit timing requirements, buy in large quantities, and often require retail packaging at product origin. Participation in this large NTAE business by SSA exporters requires tight control, a considerable scale of operations, and *close linkages* with the big EU importers. Also, because the EU horticulture and floriculture markets will continue to be well supplied, only those competitors with high quality, high yields, a consistent supply, and low labor and transport costs will survive.

However, there is significant potential for NTAE development in the countries included in this research. Opportunities in developed country (primarily the EU), second-tier (e.g., Singapore and the Middle East), and regional markets are currently being developed successfully by SSA-based firms. While the developed country markets are *very* competitive, some of the other markets are less complex and therefore more accessible to small firms. NTAE promotion also represents an opportunity for donors to stimulate broad-based economic development and to increase the access of the indigenous population to the commercial economy since, *under the right conditions*, indigenous smallholders and SMEs can successfully participate.

USAID promotion of NTAE from West and East Africa to the EU has been successful in Ghana, Mali, Kenya, and Uganda. Technical assistance in production and export marketing management has been a key element in this success. However, little or no emphasis has been placed on market research in West Africa, and financial support is not a part of projects in either region. There are USAID NTAE projects under consideration in Zimbabwe and Mozambique.

Despite the opportunities and potential benefits offered by NTAEs, there is very little NTAE development support provided by other donors in the countries studied. There is some focus on production aspects, and some support for SMEs that happen to be in agribusiness, but very little is specifically targeted on agribusiness or NTAE development.

No donors have established an *integrated* approach to NTAE development. Agriculture represents a significant portion of most SSA countries' GDP and employment, and additional sources of foreign exchange and employment are badly needed. Agribusiness development, and especially NTAE development, can play an important role in stimulating production agriculture and employment growth, and will generate significant quantities of foreign exchange. But full-service, integrated support is needed to make this happen in a high-impact, best use of scarce resources manner. That is, without financial and technical assistance and managerial consulting effectively integrated into a single assistance program, NTAE development will be suboptimal.

USAID should continue to provide leadership among donors in supporting NTAE development. NTAE projects can generate greater foreign exchange earnings, increased employment in production, handling, and processing of labor-intensive products, and achieve a better return to land and labor than coarse grains, legumes, and other basic foodstuffs.

Constraints

The major constraints to NTAE development in the countries studied are (1) the shortage of working capital (caused by a lack of entrepreneurial equity/collateral and very few sources of trade finance), (2) poor infrastructure (especially roads, air ports, and communications), and (3) poor organization (the lack of a clear understanding of the highest priority opportunities [products and markets] and the optimal strategies and structures for capitalizing on these opportunities). Other important constraints to export development in general, and to NTAEs specifically, are poor performance of the customs service, inadequate enforcement of tax laws, and excessive customs duties on inputs that are to be re-exported.

For ISMEs, a shortage of high-quality planting materials and other inputs, as well as a limited domestic market for off-specification production, constrain the development of NTAE businesses.

Lessons Learned

Secondary research completed as a part of this project found that NTAE programs in LAC and Asia succeeded in boosting the growth of agribusinesses, exports, and jobs. A favorable policy environment and adequate infrastructure enhanced the prospects for NTAE success, and an early focus on developing successful pilot projects showed the best results. Contract growing promotion proved to be more workable than direct domestic and foreign investment promotion. Technical assistance at the production level was as necessary as developing market linkages. However, the design of LAC and Asian NTAE projects could have been enhanced by increasing private sector input, narrowing and refocusing project objectives, improving design flexibility, and avoiding overestimation of the capabilities of trade associations.

NTAE firms need an integrated package of financial, managerial, and technical assistance to optimize the impact of resources. Promotion of NTAE and technical assistance for upgrading production and export marketing management will not by themselves result in NTAE success. The Trade and Investment Project (TIP) in Ghana illustrates this point. Hard work by the project staff has yielded modest results to date, mainly because there are no effective *export financing* facilities for exporters of these new products to accompany and support project efforts to identify new markets, improve product quality, resolve other complex issues such as transportation, export incentives and/or disincentives, and work closely with professional associations and local governments to enhance the enabling environment.

Similarly, the progress of the Animal Productivity and Export Project (APEX) in Mali is hampered by the lack of resources to bring about a shift from promotion of traditional exports, particularly live animals and unprocessed hides and skins, to stimulation of NTAEs. This proposed shift will require not only technical assistance, but also complete modernization of the sector and the restructuring of export channels and methods of transportation to neighboring countries. Without long-term finance and trade credit, current efforts to shift risky, informal ad hoc export shipments through overseas commission brokers toward a formal and well-structured export marketing system are not likely to yield significant results.

The greatest economic impact from NTAE activities, both in terms of increasing direct income and employment as well as indirect benefits, will come from assistance focused on established, medium-size firms (those with 50 to 100 employees). These firms tend to be the ones that have a reasonable (at least 50 percent of that needed) level of equity to invest, trained and experienced staff, and market knowledge.

Because of the importance of transport costs to NTAEs (30–40 percent of the landed price), air freight, and to a lesser extent sea freight, costs must be *very* competitive. For air freight, this is significantly dependent on passenger traffic volume.

Conditions for successful smallholder (producer) participation in NTAEs exist when they involve: (a) niche markets where producers have very few alternative buyers for their output, (b) low capital but high labor intensity, (c) a full-service local exporter supporting the business, and (d) a well-established international market with experienced buyers/exporters.

Successful *ISME* export horticulture development requires the following:

- Large number of well-organized producers in a limited geographical area, usually with access to irrigation
- Cold storage units at collection points to remove field heat and store the produce
- Producer-owned transport/collection system
- Readily available, qualified TA, primarily as related to quality control
- Access to a good communication system
- Focus on higher value products
- Shared production-related equipment, such as sprayers
- Access to the local fresh or processed market for off-grade product and overproduction

SMEs will be best able to participate in higher value NTAE business if they can share expensive fixed assets and consolidate their output and marketing efforts. Therefore, some form of product consolidation is necessary for the financial success of marketing projects involving small-scale producers. An example of this would include a joint packer/small farmer owned center that is responsible for land preparation, spraying, TA, output consolidation, cold storage, and transport.

When local producers are risk averse and inexperienced in NTAE production and marketing the best way for them to develop is via outgrower or subcontractor relationships with large, experienced firms.

There is considerable misunderstanding and distrust on the part of small producers as related to the price that packers or exporters pay for produce, especially as related to product grade-out, and the appropriate price for the various terms of sale (e.g., FOB factory versus field pick-up, COD versus consignment, and TA provided versus no TA). Therefore, price transparency is important to maintaining credibility in a small producer/big exporter relationship.

TA to producers (farmers) for non-traditional crops is best supplied by highly focused services provided by exporting firms that market the product, or by well-designed donor-supported projects, rather than by government agencies, which often do not understand market requirements and often use outdated technology.

Large agribusiness firms may find it easier to go into their own production in developing countries when technological advances enable intensive, commercial agriculture, especially when they are targeting developed-country supermarket business.

Innovative entrepreneurs with an intimate knowledge of locally available raw materials and a reasonable understanding of international markets can often develop good NTAE business propositions. Some of these propositions deserve further evaluation, especially where they can have a significant *broad-based* local impact.

A large up-front investment and significant ongoing operating costs are needed for a broad-based export promotion and information service. Because government, or long- term donor funding for such an effort is not reliable, a small surcharge on imports and exports is a good way to fund an export development entity.

Through its NTAE projects, USAID needs to heighten exporters' and prospective exporters' understanding of EU market requirements and the particular demands of the emerging mega-importers/ buyers who supply supermarket chains and other institutional customers.

Implications

The greatest impact from scarce USAID resources will be achieved when NTAE projects focus support on a few high-potential, medium-size firms participating in high-potential product lines, as determined by subsector market opportunity assessments. An operating constraints analysis will help identify and prioritize NTAE development constraints for exporting firms. Guidelines need to be developed for these studies.

Intensive direct TA to *individual micro* (< 5 employees), and to a lesser extent to small (5–50 employees), exporting enterprises is suboptimal use of increasingly scarce USAID resources. These enterprises tend to have a very high dropout rate and are unlikely to reach the point where they can pay for such services. These types of firms need to be grouped in some way, such as in an association.

NTAE project technical assistance to exporters should strike a balance between high-value (e.g., prepack horticultural products) and low-value (e.g., cleaned and graded pulses) items in order to mitigate risk and maximize export earnings. High-value/value-added exports are more complicated, more capital intensive, and entail significantly higher risks; but exporters should be encouraged and supported to optimize value-added–due to the potential for higher returns–by processing and/or packaging their products. Processing also is a way to use product that does not meet fresh export standards and to employ a significant quantity of local labor. The highest grade product should be exported to developed country markets, good quality second-grade product to high purchasing power *regional markets*, and the rest to urban domestic markets.

USAID projects that promote horticultural exports to the EU need to limit their commodity (subsector) focus to opportunities identified by market research in selected European countries. Identification of emerging market opportunities for selected horticultural products in the EU needs to be complemented by an assessment of the comparative advantage of promising products in particular African countries, the potential for expanded production of acceptable quality produce, and any agronomic assessment of the potential for growing new crops and/or varieties that have not been produced (for export) in those countries.

Projects should investigate, and where viable develop, the less difficult to serve regional and medium-size (e.g., Singapore and the Middle East) export market opportunities, especially for ISME exporters. Also, local markets should be assessed for their potential as outlets for off-specification and excess production, so that some value is recovered for *all* production.

Promoting intraregional trade will require taking a hard look at real trade opportunities among SSA countries, rigorously evaluating the current performance of regional trading enterprises and the basis for that performance, and selecting a few high-opportunity commodities/enterprises for intensive, direct promotion.

Because of the rapidly changing conditions that characterize export markets, flexibility and quick response must be features of USAID projects assisting an embryonic NTAE sector.

NTAE projects should incorporate the following:

- Solicit private sector input early on. Private sector input and support are at least as important, if not more important, than support from government officials and agencies.
- Put in place an analytical process, which begins at the design phase, to undertake market size and comparative advantage assessments of particular non-traditional agricultural products. These assessments must be *market driven*. The markets can be domestic, regional, or international, or some combination of these.
- Be designed so that the project implementation team has the flexibility to make mid-course changes in focus, strategy, or implementation thrusts *without* requiring an elaborate evaluation and redesign process. Markets for many NTAEs are thin and volatile, and market opportunities can evaporate quickly when a major exporting country enters a new market or expands shipments into an existing market.
- Provide technical assistance at the production, postharvest handling, and marketing levels. Doing market research and brokering export deals

will have little positive impact if the quality and timing of product shipped does not meet buyer expectations and market requirements.

Before providing support to an NTAE association, donors must determine the amount of export experience association members have, their export opportunities and potential, the status of the export-related enabling environment, the extent to which association organizers and leadership understand members' priority needs and have viable programs to serve these needs, and the quality of association management.

Support to ISMEs for NTAE development requires considerable, diversified and ongoing hands-on assistance. Therefore, there is a need for an institution that offers *integrated* (finance, TA, and management services) services and is "networked" into the local industry (i.e., which has the support of the larger exporting firms).

NTAE projects with ISMEs as the primary beneficiary should include services that help ISMEs *join together* to: share expensive fixed assets; jointly purchase inputs; consolidate output, at least at the local level; establish linkages with larger exporters to market their output; and negotiate subcontractor or outgrower relationships, especially for lower technology/higher labor requirement products.

NTAE projects must also ensure that when large exporters buy from small producers, from their representatives (e.g., an SHG), or from SME middlemen/wholesalers, that all participants understand the basis for establishing prices and terms. This may require donor assistance for communication materials and meetings to explain the basis for pricing and the different terms, as well as to determine how price setting can be made transparent on an ongoing basis.

When an NTAE development project is mature enough for management to understand which subsectors have the *best* potential to support their objectives, managers should have the flexibility to target some of their resources on these sectors.

Sources for working capital and reasonable cost debt should be made available to NTAE project beneficiaries, either by the project itself or from members of the project's support network and/or cooperators. Financial services are especially important for ISMEs. Reasonable cost debt is also very useful for entities that are not vertically integrated, since they are capturing a limited amount of the total available margin on a product, and for firms that are not directly exporting and therefore do not have access to debt at offshore rates.

Two very important enabling environment components that NTAE projects should focus on are:

- Transportation, both domestic roads and ports/airports as well as freight rates, especially air freight. Helping the government stimulate tourist/passenger traffic, deregulate the air cargo business, and maintain low refueling and airport landing fees will stimulate air freight availability and help keep rates competitive.
- Optimization and proper enforcement of customs activities, including quick clearance of outbound goods and low/no duties on imported raw materials that are to be reexported.

Donor involvement in a significant agribusiness export promotion project will require substantial funding, a long-term commitment, and the development of alternative sources of funding (e.g., a cess on imports and/or exports). The size of commitment needed means that multidonor support may be required. Support by donors from countries that are the target market for some of the exports would be very helpful.

A donor-supported mechanism is needed to finance, preferably on a matching grant basis (which would be recoverable if the project became successful), the assessment of broad-based benefit NTAE propositions developed by successful local agribusiness entrepreneurs. A mechanism should also be developed to tap the experience of the few successful NTAE entrepreneurs in a given geographic area, and with their help determine how to accelerate the rate of NTAE development in that area.

Rehabilitation of NTAE industries that were once quite large (e.g., the cashew and coconut industries in Mozambique) will likely be very costly and require the joint and well-coordinated efforts of donors, the government, private sector participants, and producers.

Therefore, donor activities designed to support and stimulate the development of NTAEs should consider including the following components:

NTAE *associations* can be very helpful by enabling scale economies for providing services such as technical assistance and in some cases implementing transactions (e.g., shared equipment, provision of inputs, and consolidation and marketing of output), and increasing industry "voice" to enhance the enabling environment.

Both commercial (smaller firm to larger firm) and project (project management to larger firm) linkages with executives of successful larger NTAE companies will help develop SME managerial and business capabilities and assist project management to better understand the opportunities and challenges in the business.

- A project needs to integrate financial (debt and equity), technical, and managerial services into a one-stop-shop concept that can address a firm's constraints in an orchestrated manner. Otherwise the entrepreneur will have to go to several different sources with different requirements, and/or one missing service will result in the others being less than optimally effective.
- Projects must identify and target the highest opportunity subsectors (in some cases [e.g., Mozambique and Tanzania] this may involve rehabilitation or forward integration of an old/existing export business) and markets and pay particular attention to integrating *indigenous* firms into the industry.

M&E for NTAE development projects should focus on the success of firms, associations, or other entities supported. National export statistics are often not a highly relevant measurement of project performance.

3.3.5 General Recommendations

This section summarizes other findings, lessons learned, and implications for USAID that do not fit neatly into the previous categories (NTAE, Association Development, SMEs, Financial Services). Quite a few involve project design, structure, and management and donor program choices and coordination.

Lessons Learned and Implications

Agribusiness Projects in LAC and Asia. AFR/SD/PSGE/PSD and USAID Missions in Sub-Saharan Africa can learn from agribusiness projects in LAC and Asia, although USAID project officers and analysts need to recognize that the economic and development contexts are quite different with respect to level of economic development, infrastructure, coherence and consistency of government policies and regulations, technological sophistication, human capital levels (managerial skills, labor force literacy/numeracy/training), and other factors. An innovation that works well in LAC may not take hold all that well in an Asian or African country. For example, trade associations have flourished in Central America (under PROEXAG/EXITOS) but have been slowly and cautiously embraced in Indonesia, where business organizations are uncommon and regarded with suspicion. Similarly, an ASC might have to play far more of a financial intermediation role in SSA than in Asia, where alternative sources of finance are more readily available, and where financial markets are overall far deeper than those in SSA.

Agribusiness Service Centers. Identifying and developing effective and efficient *intermediary organizations* (e.g., associations, food and agribusiness development centers, or well-managed NGOs/PVOs) is essential for leveraging scarce project resources.

Currently, donors are focusing on microenterprise development and microenterprise and small business creation. According to GEMINI-funded work, microenterprises tend to flourish during bad times and fade during good times (see Liedholm and Mead, 1993). As part of an informal social safety net, microenterprises appear to play a valuable role, but as an engine of economic growth and wealth generation, microenterprises do not rate highly. Microenterprise development programs can play an important role in "graduating" firms from microenterprise to small enterprise status. There is clearly a pressing need, however, to support SME expansion and diversification more efficiently and effectively. SMEs are very much the "missing middle"[4] in private enterprise promotion programs in developing countries, particularly in SSA. ASCs are one innovative vehicle for rigorously screening and *directly* assisting SMEs in the agribusiness system. Since the agribusiness system accounts for a significant proportion of GDP in most developing countries, creating ASCs—as opposed to small business development centers (which attempt to satisfy all comers)—is a rational, high-impact use of scarce resources.

Agribusiness Project Identification, Design, and Management Considerations. A good subsector prioritization model based on market potential, comparative advantage, opportunities and constraints analysis, and availability/interest of human resources is needed very early in commercial projects. This thorough analysis is needed to prioritize the subsectors of primary interest before decisions are made about mission support to commercial enterprises in a given agribusiness subsector. The analysis should pay particular attention to the competitive advantage of the product in its target markets as well as to the availability of trained personnel and the necessary financial resources.

Private sector advisors, both expatriate and local, should be used more extensively by USAID Missions in the design and monitoring of agribusiness development projects because they have a much better perspective on the challenges and opportunities they face than do government employees. Direct, local business experience is likewise important in helping to prioritize and pursue policy reform issues related to private sector development.

Agribusiness development projects must be managed by individuals with considerable *successful* commercial agribusiness experience. Effective staffing is absolutely essential to a project's success. Professional management and a strong interest in localization of most operating positions will enable agribusiness projects to get off to a solid start. Top-down counterpart and local staffing will enable more local input into design refinements and lower level staff selection. Africans from other countries may be able to supplement the supply of local agribusiness managers while locals are trained and gain more experience. All expatriate positions must have a local counterpart.

Semiannual project review forums (½ day with a broad group of beneficiaries, local government officials, and private sector representatives; ½ day with the project team) can be used to coordinate project activities, improve their effectiveness, and enhance a feeling of local "ownership" of the project. Active steering committees, with extensive private sector participation, must play a strong role to ensure success at all stages of project implementation.

All aspects of projects' *and* beneficiaries' operations (production, organization, management, marketing, finance, etc.) must be properly served for optimal success.

Smooth, logical, and timely project succession is vital to maintain local confidence in USAID activities.

Other Considerations. Government approval and support for agribusiness projects are essential, but implementation should be independent of direct government involvement because the private sector generally prefers an "arms length" relationship with government; and government involvement in implementation will slow progress.

Keeping policy improvement "on the burner" is the only way it will get accomplished. Therefore, all projects must suggest high-impact policy enhancements as well as methods to achieve them.

At the Africa Bureau level, an ongoing, formal, and SSA-wide information exchange should be established on agribusiness development lessons learned and the implications for USAID project/activity design and implementation. This would incorporate the experience of all SSA donors working in the area and could be initiated based on the findings of this *Innovative Approaches* activity.

Donor Program Choices and Coordination. Multidonor agribusiness development projects (especially if focused on financing) should be investigated and pursued, especially where other donors are responsible for an area where they have extensive experience. Also, some PVOs (e.g., CARE in Zimbabwe and Mozambique) may be able to move beyond production agriculture and social development into high impact economic development, and should therefore be considered as partners for agribusiness development projects, especially in rural areas.

Donor programs based on support for development in areas inich the donor has well-established capabilities have good prospects for success. Conversely, new development areas should be approached with considerable care, and where possible in cooperation with other donors who have experience and competence in that area. Therefore, the apparent success of a production agriculture-focused donor agency or PVO does not mean that it will be able to successfully evolve into postharvest development, especially without considerable outside assistance.

Donors can use their experience in more developed industries to help rehabilitate agribusiness industries destroyed by political strife and/or civil war. In situations of emerging democracies and free market systems, unique opportunities for cooperation between the private sector and donors may emerge, often with considerable opportunties for mutual benefits or involving innovative, large agribusiness companies is a good way for donors to leverage their agribusiness and infrastructure development efforts in rapidly evolving countries, especially when the agribusiness firm is willing to cooperate on projects of mutual benefit and interest. Private agribusinesses can be used to identify high-yield business and geographic opportunities, and can often be effective partners in developing these opportunities.

Shortly after the shift from socialist to democratic systems is a good time for donors to determine where they have a comparative advantage to assist agricultural ministries in their important work. At that time the ministry is often quite open to ideas and will cooperate with well thought out programs. Improvements in government industrial policies must be accompanied with significant input from the private sector, especially when a country is evolving from a parastatal-based economy.

3.3.6 Key Issues

This section summarizes key issues identified by this activity that, if resolved, would make a significant positive contribution to agribusiness development in SSA.

NTAE Development

1. How effective is most general market information? Large firms say they do not need or use it, and small firms do not know how to use it. There is a need to develop effective ways to measure the use of market information versus the cost of providing it, especially by type of information and type of user.
2. How can the potential be optimized for outgrower/contract grower schemes on the model of the silk and vanilla projects in Uganda, schemes that have successfully reached out to both small farmers and women? How can the success, future prospects, and specific agreements of apparently functional outgrower and subcontractor schemes (e.g., in the Arusha/Moshi area in Tanzania and at Mashonaland East in Zimbabwe) be further assessed? The specific success criteria and methods for developing sustainable outgrower schemes, especially for specialty NTAEs, need to be determined.
3. What is the best way to determine the viability of and to develop highly leveraged (multidonor and extensively networked with the private sector) agribusiness, and especially NTAE, projects in geographic areas that have the potential for a *broad-based*, positive impact?
4. How does a project focus on NTAEs but retain the flexibility to apply similar TA to the much larger domestic and regional markets, especially for firms that will eventually become exporters?

SME Development

1. What is the best and most efficient way to measure the full social and economic impact of support to large-scale enterprises (e.g., the Ziwa Roses project in Uganda)? Because USAID economic development objectives include increasing

broad-based income, employment, and foreign exchange generation, these may be most efficiently achieved through support to medium and large firms. A comparative impact assessment is needed to respond to criticisms of this type of assistance, which at times is perceived as supporting the "big guys who need it least." Therefore, there is a need to determine the comparative primary *and* secondary impact of support for medium and large versus micro and small enterprises, including a cost/benefit analysis.

2. What is the best way to assess the feasibility of an integrated services agribusiness development center in SSA. If it is feasible, what is the best way to install a model ADC, and where is the highest opportunity location?

3. Should or can micro and small enterprise (MSE) support institutions become self-financing? Donors need to assess the potential financial payback and likely term on MSE projects and determine if a reasonable payback can be achieved. If not, what other M&E should be developed to assess these types of projects?

Association Development

1. Which types of associations should USAID and other donors give priority to supporting: subsector- or commodity-specific associations, which are vertically organized and have different types of firms as members (input suppliers, buyers, processors, distributors) or industry associations, which are organized horizontally (e.g., processors of a particular product)?

   Under what conditions in SSA and other developing countries have umbrella organizations been created and played a positive role in promoting agribusiness development? What services can they provide effectively to member associations and what services can they not provide effectively?

2. Based on USAID experience worldwide, how can association services be most effectively scaled to association resources? Which activities should receive funding priority and under what conditions? What are the implications for how much funding (i.e., what proportion of total association funds) USAID provides to weak or newly created associations? What sources of funding have been developed beyond dues and donor support?

3. Which types/sizes of firms should associations focus on recruiting as members?

4. Should member dues or contributions be established on the basis of sales, total revenues, employment, or other criteria?

5. How can associations most effectively represent an industry or subsector to financial institutions? Under what conditions might an association be used as a financial intermediary (e.g., offer group finance to its members)?

6. How can associations work most effectively with an agribusiness service center such as an FADC or agribusiness incubator.

7. What is the role for "commercial" associations that sell members inputs and market their output (especially for micro and small enterprises)? Can commercial associations be used to improve input supply and output marketing, replacing outmoded state or cooperative channels? An investigation should be conducted on how commercial associations can be developed and supported to function as middlemen between MSE producers and exporters, thus enabling some economies of scale.

Financial Services

1. How can financial services organizations that have not served agribusiness be made to change their orientation, attitudes, and performance?

2. Are conventional financial organizations such as agricultural development banks and commercial banks the best vehicles for channeling equity and long-term debt to agribusiness firms that seek to expand and/or diversify? What other intermediary organizations might be created to meet these needs?

3. What has been the performance (independent of

loan repayment) of micro-firms or groups that have received credit through an association, producer group, or economic interest group? Have these entities generated more income and profit? Has loan repayment been funded out of increased earnings or from other sources (e.g., sales of assets, cross-subsidization from another enterprise)?

4. In francophone countries with a poor track record of financial support to agribusiness development, what is the recommended sequence of corrective actions? Should donors focus initially and exclusively on financial sector policies, regulations, and investment climate? Or should alternative intermediary organizations be created to service agribusiness? Is it possible to overcome perceptions of agribusiness as risky and anti-agriculture-sector attitudes in a reasonable time period?

5. How do regional financial and monetary policies and regulations affect agribusiness finance in francophone countries? What is the possibility for changing restrictive practices, such as interest rate ceilings, in the short to medium term? Should credit programs *not* be funded in francophone countries where financial system constraints make decapitalization over the long-term unavoidable? Should donors focus on providing debt and equity only to SMEs that meet a rigorous set of criteria?

6. How can financial, managerial, and technical services be most effectively and efficiently integrated into a single entity that is targeted on a specific high-opportunity subsector or firm type? How can a broad base of financial, technical, political and "network" support be developed for such an entity?

Other

What is the best way to effectively communicate to local agriculture and business schools, what agribusiness skills are most needed. Also, how can private sector leaders play a more active role in curriculum development and teaching?

3.4 KEY AGRIBUSINESS PROJECT DESIGN AND IMPLEMENTATION RECOMMENDATIONS

The following recommendations are offered based on the research and analysis completed for this activity. They are believed to be highly relevant to SSA agribusiness development needs, and represent the ways in which the findings of the activity can be applied to SSA agribusiness development constraints and opportunities. The recommendations are roughly categorized into Programming Related and Implementation Related classifications. Examples of successful application of the recommendation, and often one of the sources for the recommendation, are noted in parenthesis.

Programming Related

1. **Establish project design and implementation alliances to increase USAID's "bang-for-buck".** This can be accomplished through multi donor projects (TDFL, TVCF, TBC), by partnering with selected NGOs/PVOs (CARE), by cooperating with appropriate government entities, e.g., development banks and export promotion agencies (ARDA-Mash East), and by working in close concert with relevant private sector firms or organizations (cashew trees-Mozambique).

2. **Increase the involvement of successful private sector managers in project design and implementation.** This can be accomplished via ongoing private sector development and project advisory committees (FEW GOOD EXAMPLES), periodic project review meetings with key private sector representatives (KEDS), and other similar arrangements.

3. **Enhance the sustainability of interventions via a heavy focus on developing local capacity during the implementation of projects.** The chances for intervention sustainability will be improved by developing–viable associations (FAGE); pragmatic and highly practical local technical and managerial assistance and consulting

capabilities; networks that tap into international technical, marketing, and managerial support (TBC); financial services providers that have an understanding of business and know how to use references (BSBC); group lending schemes that have a significant savings component (CS/CAPEC/LG), and training institutions that provide useful, highly applicable, and commercially focused training and management courses, especially those focused on enhancing operating capabilities (ZIMMAN), including such skills as business strategy and planning, financial management, bookkeeping, cost control, and marketing.

4. **Identify and focus on high-opportunity subsectors.** This should be based on formal assessments and include the identification of medium-size firms with some experience in the selected subsectors (KEDS). Medium size firms represent the best opportunity to positively impact employment, exports and agribusiness development. Firms with some experience are much easier to take to the next level.

5. **Implement cost/benefit-focused monitoring and evaluation on projects.** This should be done down to the level of individual project components. Include in the analysis qualitative input from interested parties and beneficiaries (e.g., member/client satisfaction measurement). Assess the progress of assisted firms as well as macro impact. (NO EXAMPLES DISCOVERED)

6. **Establish a feedback system for all ongoing agribusiness projects and activities.** This would facilitate dissemination, throughout USAID and the agribusiness development community, of lessons learned and implications and could take the form of an on-line bulletin board with monthly reports on specific projects, and a data bank, perhaps on-line, where current project reports, evaluations, and impact assessments are maintained and available. (NO CURRENT FEEDBACK SYSTEM OTHER THAN CDIE)

7. **Each USAID funded activity and project should have a standard requirement to identify and report success stories.** Proving the benefits of USAID work is difficult unless a concerted effort is made to identify and report success stories. These need not be created, there are many positive results achieved, but they often go unreported. If personnel on each activity and project was responsible for, in addition to their project/activity specific responsibilities, identifying and objectively reporting success stories, the information bank that would be developed could become a very useful resource for achieving support for USAID's work. (NO FORMAL SUCCESS STORY REPORTING SYSTEM)

Implementation Related

1. **Develop and sustain effective operating linkages to leverage the experience and know of successful enterprises and individuals.** Many medium and larger agribusiness firms and professionals have the skills needed to accelerate the rate of agribusiness growth on SSA. But this talent, expertise, and know how is small compared to the need. Therefore, ways must be found to leverage these scarce skills so that their benefits can be enjoyed by a large number of enterprises and entrepreneurs. Such leveraging can be achieved through outgrower arrangements (CARZAN, HORTICO), subcontracting, mentoring (K-MAP), "commercial" associations (KESSFA), and joint efforts by the local extension service/R&D, the private sector, and donors on constraint alleviation (KEDS). For large buyer-small producer linkages transactional transparency, especially regarding pricing, is essential to build and retain confidence (SELBY'S).

2. **Develop integrated (one-stop-shop) agribusiness development service centers, which can provide in one location all the services needed by SME agribusinesses.** These services include financing, i.e., flexible equity and debt based on business and reputation considerations (BSBC); technical assistance and consulting services on processing, packaging, transport, quality assurance, and cost control (TIP); managerial consulting on business strategy and planning (TBC), financial management, and on sharing fixed assets (MASH EAST); and assistance gaining ac-

cess to domestic and international support networks (KEDS, TIP, TBC).

3. **Investigate the development, promotion, and use of integrated, diversified agribusiness associations**. These associations would include producers, processors and packers, exporters, and service companies as members (SILK, VANILLA). They would: provide a range of integrated services, including input supply, output consolidation, marketing, and technical assistance (KESSFA); identify, understand, and respond to members' *priority* needs (AAK); demonstrate good funds sources and uses understanding and management (NO EXAMPLES); be able to balance policy and voice concerns with members' other priority needs; and possibly support or directly provide group lending. Umbrella associations can also be used to achieve this type of leverage and range of services (FAGE).

4. **Consolidate and thus leverage the activities of micro and small enterprises.** Such consolidation and leveraging can be achieved by joint input purchasing, by owning fixed assets in common, by consolidating output, by using a common source for technical assistance, by having full-time rather than part-time operations managers, by negotiating and lobbying as a group, and by self-help groups coming together to form an association (MASH EAST, KESSFA).

5. **Place as much emphasis on identifying and developing opportunities as on constraints analysis and policy enhancement.** First, determine where the opportunities are and how to capitalize on them; then assess the policy and enabling environment constraints only if they constrain access to or the ability to capitalize on established opportunities. (EPADU)

6. **Place predominant enabling environment focus on conditions that are constraints to high priority agribusiness opportunities**. Prioritize enabling environment constraints on the basis of interviews with entrepreneurs and commercial participants insights into high-opportunity subsectors (NO EXAMPLES). Place equal emphasis on i) proper enforcement of established rules and regulations and i) policy modifications. Look for joint public/private/donor solutions to priority enabling environment constraints (e.g., infrastructure). Understand that commercial policy enhancement and institutional development must be private sector and market led. Use enabling environment policy enhancement project professionals who are directly involved in business development as a source of policy modification needs (EPADU).

7. **Emphasize regional, specialty, and domestic markets for agribusiness micro and small enterprises.** This would include a focus on balancing domestic supply and demand and on labor intensive, value-added products, e.g., maize milling (ZIMBABWE), on less demanding regional markets (FAVCO), and on niche markets with established customers (MADAGASCAR SPICES, SUN FLAGG, VANILLA, SILK).

4. Secondary Research Findings

This chapter summarizes key findings, lessons learned, and implications for USAID from secondary research performed under the *Innovative Approaches* activity. The secondary research findings are based on the following three literature reviews, which appear in their entirety as appendices to volume 2.

- *Secondary Review of Innovative Approaches to Agribusiness Development in LAC and Asia* by Richard Koskella of IMCC
- *Sub-Saharan African Exports of Horticultural Products to the European Union: Consolidation and Synthesis of Studies* by Richard Abbott of Abt Associates Inc.
- *Secondary Review of Agribusiness Development Centers* by Daniel Shaffer of Arizona State University

4.1 NON-TRADITIONAL AGRICULTURAL EXPORT DEVELOPMENT

Key Findings

USAID-funded projects in LAC and Asia provide valuable lessons for SSA. The LAC and Asia NTAE programs succeeded in boosting the growth of agribusinesses, exports, and jobs; and a favorable policy environment and adequate infrastructure enhanced the prospects of NTAE success. However, NTAE project designs were flawed in a number of important respects. There was little input from the private sector; the focus of some projects was misplaced or too broad; the design was not flexible enough; and trade associations had limited capabilities.

Lessons Learned

Projects were most successful when there was an early focus on developing successful pilot projects, in which field trials were carried out on agronomically promising agricultural products with market potential. Contract growing proved to be more workable than direct domestic and foreign investment promotion. Technical assistance at the production level was as necessary as developing market linkages.

Implications for USAID

- Solicit private sector input in the early stages of a project private sector input and support are at least as important, if not more important, than government support.
- NTAE projects need to put in place an analytical process, which begins at the design phase, to undertake market size and comparative advantage assessments of particular non-traditional agricultural products. These assessments must be market driven or based, where the markets are domestic, regional, or international, or some combination of these.
- NTAE projects must be designed so that the project implementation team has the flexibility to make mid-course changes in focus, strategy, or implementation thrusts *without* requiring an elaborate evaluation and redesign process. Markets for quite a few NTAEs are thin and volatile, and apparent market opportunities can evaporate quickly when a major exporting country enters a new market or expands shipments into an existing market.
- NTAE projects require technical assistance at the production, postharvest handling, and marketing levels. Doing market research and brokering export deals will have little positive impact if the quality and timing of product shipped does not meet buyer expectations and market requirements.
- USAID should continue to provide leadership among donors in supporting NTAE development. Several USAID-supported projects in LAC, Asia,

and SSA have played a key catalytic role in promoting NTAEs, particularly to high-income markets such as the EU. NTAE projects can generate greater foreign exchange earnings, increased employment in production, handling, and processing of labor-intensive products, and a better return on land and labor than coarse grains, legumes, and other basic foodstuffs.

4.2 ASSOCIATION DEVELOPMENT

Key Findings

Institutional strengthening of public or private associations contributes to successful agribusiness development, particularly NTAE promotion. Association development was usually in support of NTAE promotion. Post-project sustainability of associations is a major problem. The charter and objectives of supported associations are often too ambitious, leading to sub-optimal association performance.

Lessons Learned

Associations achieved the best results when they focused on field trials and trial export shipments to foreign markets. In a developing country or transitional economy that lacks a history of association formation and continuity, long-term nurturing of associations may be required in order to achieve agribusiness project objectives. Alternatively, a project could work directly with private agribusinesses.

Implications for USAID

- Before committing significant resources to association development, USAID and other donors need to assess the institutional environment and the business "culture" carefully. Some countries may not be suitable for association development, given poor historical performance of associations or cooperatives or no prior association experience because businessmen do not have a history of collaborating, even on matters of mutual interest.
- The potential of and role for associations need to be carefully thought out, as there is a tendency to have exaggerated expectations. Associations in most African countries function most effectively as lobbying organizations. More mature associations may be able to take on more functions that are industry- or subsector-specific. Nevertheless, in few cases will an African trade or business association be able to provide an integrated, full-service package of assistance to member firms. (This provides an opportunity for creation of a food and agribusiness development center [FADC], which is better able to provide firm-level TA and finance).
- In evaluating the suitability of working with and supporting an association prior to a project, key success criteria need to be established. While most trade associations in Africa fall far short of the ideal, they should have a minimum number of active members, member financial support (minimum percentage, depending on the size and creation date of the association), leadership that is reasonably responsive to members, and a minimal infrastructure (office space, manager, support staff).
- Despite the mixed experience in working with associations, USAID should continue to support association development as an important component of agribusiness development programs. Associations can play a positive lobbying function, and their emergence is evidence of the healthy evolution of a vital form of interest group in civil society and democratic participation in and input to government. As associations mature and increase funding sources, they can also take on industry- or subsector-specific training, market intelligence gathering/dissemination, and technical assistance functions.

4.3 DEVELOPMENT, WITH PARTICULAR ATTENTION TO PROMOTION OF NTAES TO THE EU

Key Findings

Smaller African enterprises tend to be risk averse, poorly organized and managed, not well informed about export market opportunities, and financially strapped and hence unable to invest in improved equipment and technology. When exporting NTAEs to the EU and other high-income markets, SMEs tend to ship produce to EU brokers and importers on consignment, thus, assuming all of the price and market risk themselves. Small exporters have essentially no control over export marketing channels in the EU. Reducing risks, increasing control, and enhancing returns require small- to medium-size NTAE exporters to negotiate contracts with EU buyers or enter into strategic alliances with EU firms that will advise them on production and postharvest handling techniques, shipping methods, packaging, and other technical matters. To have enough volume to capture importers' attention, however, SME exporters will need to organize and coordinate their shipments. Whether they do this as an exporters' cooperative, through a trade association in a particular African country, or with the help of an export promotion agency representing a particular country's exporters in the EU depends on a number of factors, particularly the strength of existing institutions and the willingness of independent SME operators to collaborate.

Lessons Learned

SME exporters who do not organize into a group are at a decided disadvantage in shipping to EU markets, vis-á-vis large firms, which can achieve scale economies, invest in cold chain technology, and regularly export significant volumes. EU importers, who are becoming increasingly concentrated to serve multiple countries and large-volume buyers such as supermarket chains, want to minimize transaction costs and risks associated with dealing with smaller volume, occasional suppliers, and to maximize the probability of regular shipments that meet stringent specifications.

Potential Role for Food and Agribusiness Development Centers

Support to a wide range of SMEs, including firms that serve domestic, regional, and international markets, can be provided by several different types of intermediary organizations. Volume 2 focuses on small business incubators or development centers and on FADCs, which concentrate on agribusiness enterprise promotion, providing an integrated package of services to *existing* SMEs that seek to enter new markets, expand production, and diversify their product mix. These services include technical assistance in business planning, market research and intelligence gathering, marketing, and financial management. An FADC can also access specialized technical services in production technology and management, information systems, and functional areas of marketing (such as postharvest handling, storage, transport, processing) through an established service network. Finally, and unlike incubators, FADCs can provide financing to SMEs in the form of equity and/or debt, which serves a niche (e.g., SMEs) that is rarely served by conventional sources of financing. AMIS II staff with industry experience feel strongly that FADCs can play a positive and catalytic role in SME development and promotion.

Implications for USAID

- EU markets for horticultural products have become hyper-competitive; thus, USAID needs to devote greater attention to competitive strategies for countries acquiring or defending market share, and for enhancing African exporters' management over EU market channels.

- Two ways to address the above issues are to (1) continue to do applied research that focuses on competitive strategies and market channel management, and (2) conduct annual surveys of major importers/buyers of African (and other tropical and counter-seasonal) horticultural produce in the EU.

- Market channel research should focus on (1) evaluating returns, costs, and risks of different organizational or institutional arrangements between (and among) African exporters and EU buyers; (2) trends in EU market channels; and (3) the role of African government trade promotion agencies or representatives in European markets.

- USAID projects that promote horticultural exports to the EU need to limit their commodity (subsector) focus based on market research in selected European countries. Identification of emerging market opportunities for selected horticultural products in the EU needs to be complemented by an assessment of actual production of promising products in particular African countries, potential for expanded production of acceptable quality produce, and an agronomic assessment of the potential for growing new crops that have not been produced (for export) in those countries.

- Through its NTAE projects, USAID needs to heighten exporters' and prospective exporters' understanding of EU market requirements and the particular demands of emerging mega-importers/buyers who supply supermarket chains and other institutional customers.

4.4 FINANCIAL SERVICES TO AGRIBUSINESS, WITH PARTICULAR ATTENTION TO FADCS

Key Findings

While the review of innovative approaches to agribusiness development in LAC and Asia found little information about financial services, it was a central theme of the discussion of FADCs and business incubators. At a minimum, a key function of both entities is to maintain networks of professional service providers, which include financial institutions such as commercial banks, agricultural development banks, credit unions, venture capital funds, and other financial intermediaries. As access to financial resources is typically a major constraint on SME expansion or diversification, one-stop-shop intermediary organizations such as FADCs must emphasize provision of needed financial services. Given the reluctance of conventional financial intermediaries to loan funds to agribusiness firms, particularly SMEs, which are not well-collateralized, FADCs will have to include an in-house financing (debt and equity) component. Hence, FADC managers and board members will need to have strong finance backgrounds and be able to mobilize both equity and debt to finance SME expansions *and* to integrate it with technical and managerial assistance.

Lessons Learned

- The track record of commercial and development banks, NGOs, and development projects is poor in serving SME financial needs because SMEs do not lend themselves to the type of financial assessment used by most financial institutions.

- SMEs require several types of assistance provided in an integrated manner by a single agribusiness intermediary organization. Conventional lenders cannot perform this role, but FADCs can.

Implications for USAID

- FADCs appear to be the pivotal and missing link in the support system serving agribusinesses in African countries because they can provide an integrated package of services to agribusiness firms seeking to expand or diversify. In the literature review and the country case studies (see volumes 3 to 5), no one project or set of donor-funded interventions served the full range of SME needs. USAID should strongly consider establishing FADCs in promising African business environments, such as those in Ghana, Madagascar, Zimbabwe, and Tanzania.

- To optimize the prospects of FADC success, USAID needs to abide by the following principles:

  SME product decisions and production technology must be driven predominantly by market requirements. Production needs to be demand driven.

  FADC assistance to nonestablished exporters should concentrate initially on successfully marketing to domestic and regional markets. That will enable SMEs to meet the somewhat less rigorous requirements of these markets before taking on challenging international markets.

FADCs will succeed only if donors cultivate private investor and key public agency support and *ownership* of the FADC. Foreign resources alone can not create a sustainable FADC; half or more of the start-up resources must come from local sources.

FADC development requires an appropriate mix of expatriate specialists and experts in incubator/business center development, as well as local business consultants. Heavy reliance on expatriates will not result in development of a sustainable FADC.

FADC start-up requires a minimum three-year resource commitment, as well as the flexibility to respond to the changing needs of SME clients for information, technology, TA, export marketing management assistance, and financing.

4.5 MONITORING AND EVALUATION

The review of innovative approaches to agribusiness development in LAC and Asia uncovered little information about the quality and effectiveness of M&E on USAID and other donor projects in those regions. In fact, there was so little information that the 1993-94 CDIE agribusiness evaluation team decided to visit a number of countries to generate the basic information needed to compare impact in different countries and agribusiness systems. While USAID is aware of the need to do careful M&E of ongoing agribusiness projects, few M&E systems permit the kind of cross-country comparisons needed for serious analysis that would strengthen USAID's institutional memory and capacity to learn from experiences in different countries. Furthermore, impact evaluation that is done is usually macro (sectoral or subsectoral) and broad-gauged. There has been little attempt to assess the impact of agribusiness projects on *assisted* firms, using firm-level performance measures.

Implications for USAID

Ongoing tracking of African horticultural exports to EU countries should be a high M&E priority given the proliferation of USAID-funded projects with NTAE components. A central office such as AFR/SD/PSGE/PSD could perform a valuable service to various USAID missions and NTAE projects by monitoring and analyzing EU markets for horticultural products. In addition to tracking EU imports according to which country is the supplier (volume and price by season), NTAE projects require ongoing analysis of trends, changes, and shifts in consumption patterns and marketing channels, and the competitive position of African exporters vis-à-vis competing suppliers. The best way to arrive at a valid assessment of competitive position is to interview EU importers periodically, probably at least once a year. Importers should be asked to rank different African suppliers on the basis of key factors such as reliability of exporters as suppliers, how well NTAE products are prepared, packed, and labeled, exporters' ability to meet delivery schedules and specifications, exporters' understanding of the market requirements, and exporters' familiarity with the requirements of the export business. They should also be asked about important trends in the business.

Although not discussed at length in the review of FADCs and incubators, M&E of their financial performance, based on the performance of SMEs that have received FADC equity and/or debt, is a high priority. As an innovative intermediary organization, an FADC should be monitored and evaluated in the following other areas:

- Effectiveness of assistance in business planning
- Effectiveness of training provided or identified through service networks
- Timeliness and effectiveness of FADC monitoring of SME production, marketing, and financial performance
- Ability to access skillful and needed outside service providers, who provide valuable direct assistance to individual SMEs
- Effectiveness of an FADC in using the leverage provided by its financial resources to access other sources of funding (including conventional finance, which has typically not been available to agribusiness SMEs in developing countries)

- Progress toward financial sustainability
- Loan recovery ratios
- The estimated increase in the value of equity holdings

As discussed in the AMIS II *Guidelines for Food and Agribusiness Development Centers* (see Gordon and Shaffer, 1995), performance evaluations should be carried out at least once per year by outsiders (preferably by one or more of the evaluators who participated in the design of the FADC). FADCs that fail to meet reasonable expectations require strategic rethinking, redirection in some aspect(s) of implementation, or more resources to perform particular functions than originally envisaged.

4.6 GENERAL RECOMMENDATIONS

AFR/SD/PSGE/PSD and USAID Missions in Sub-Saharan Africa can learn much from agribusiness projects in LAC and Asia, although USAID project officers and analysts recognize that the economic and development contexts are quite different with respect to the level of economic development, infrastructure, coherence and consistency of government policies and regulations, technological sophistication, human capital levels (managerial skills, labor force literacy/numeracy/training), and other factors. An innovation that works well in LAC may not take hold all that well in an Asian or African country. For example, trade associations have flourished in Central America (under PROEXAG/EXITOS) but have been slowly and cautiously embraced in Indonesia, where business organizations are uncommon and regarded with suspicion. Similarly, an FADC might have to play far more of a financial intermediation role in SSA than in Asia, where alternative sources of finance are more readily available, and where financial markets are overall far deeper than in SSA.

NTAE development projects have been popular with many USAID Missions during the 1990s. Several missions have redesigned earlier projects, which had (producer) cooperative strengthening (Uganda, Guatemala) or regional development (Northeast Thailand) orientations, to incorporate major NTAE promotion components. Supporting NTAE development is rational from an individual Mission's perspective, but the agency and regional bureaus were remiss in not assessing the aggregate impact of simultaneous NTAE promotion projects in many countries, which often targeted a narrow range of markets and products.[5] Such a situation can be prevented in the case of the EU, by more systematic tracking of major EU markets for key horticultural, floricultural, and other NTAE products. It is of the utmost importance that this effort go beyond analysis of secondary volume and price data. Formal surveys of a sample of key importers are strongly recommended in order to gauge the competitive position of different developing country suppliers. Either a central bureau or a regional office of USAID should fund, oversee, and coordinate such a survey, as this would benefit numerous USAID Missions and projects and avoid costly duplication.

An FADC, as a refinement and specialized application of a small business incubator or development center, is a well-formulated concept and potential innovation that describes funding by USAID or other donors or foundations/NGOs. AMIS II staff believe that non-directive, multisectoral business development centers are unlikely to be successful in many developing country contexts. An FADC, on the other hand, operating under tight controls and private sector management, can fill a key gap or niche by providing integrated services to SMEs. This is especially important because SMEs, quasi-formal enterprises that lack significant financial resources, have trouble accessing conventional finance and paying the full cost of needed services (technical assistance in business planning, financial management, production/processing technology and techniques, marketing strategies and functions, etc.).

Currently, donors focus on microenterprise development and microenterprise and small business creation. According to GEMINI-funded work, microenterprises tend to flourish during bad times and fade during good times (see Liedholm and Mead, 1993). As part of an informal social safety net, microenterprises play a valuable role, but they do not promote economic growth and wealth generation. Microenterprise development programs can play an important role in "graduating" firms from microenterprise to small enterprise status. **There is a pressing need, however, to support SME expansion and diversification more efficiently and effectively**. SMEs are very much the "missing middle"[6] in private enterprise promotion programs in developing countries, particularly in SSA. **FADCs are one innovative vehicle for rigorously screening and** *directly* **assisting SMEs in the agribusiness system. Because the agribusiness system accounts for a significant proportion of GDP in most developing countries, creating FADCs—as opposed to small business development centers (which attempt to satisfy all comers)—is a rational, high-impact use of scarce resources**.[7]

5. Key Findings from East Africa

This section summarizes key lessons learned and implications for USAID of the *Innovative Approaches* work in the East African countries of Kenya and Uganda.

5.1 NON-TRADITIONAL AGRICULTURAL EXPORT DEVELOPMENT

Key Findings and Lessons Learned

In Kenya and Uganda the principal NTAEs are fresh flowers and vegetables marketed to European countries.

The greatest economic impact from NTAE activities, both in terms of increasing direct income and employment as well as indirect benefits, will come from assistance focused on established, medium-size firms (those with 50 to 100 employees). These firms tend to be the ones with a reasonable level (e.g., about 50 percent) of equity to invest, trained and experienced staff, and reasonable market knowledge.

Intensive technical assistance to individual micro (< 5 employees), and to a lesser extent small (5–50 employees), exporting enterprises is a suboptimal use of increasingly scarce USAID resources. These enterprises tend to have a very high dropout rate and are unlikely to reach the point where they can pay for such services. These types of firms need to be grouped in some way, such as in an association.

TA to exporters of fresh produce should strike a balance between high-value (e.g., pre-pack horticultural products) and lower-value (e.g., cleaned and graded pulses) items in order to mitigate risk and maximize export earnings. Development of higher value (or value-added) exports is more complicated, more capital intensive, and has significantly higher risks. However, exporters should be encouraged and supported to optimize value-added — due to the potential for higher returns — by processing and/or packaging their products. This not only provides a way to use product that does not meet fresh export standards, but also can reduce the need for refrigerated storage and shipping (high value/low weight) and thereby minimize air freight costs. Therefore, the highest grade product should be exported to developed country markets, quality second-grade product to high purchasing power regional markets and then to urban domestic markets, third-grade product where appropriate and feasible should be processed (where economy of scale opportunities exist), and fourth-grade product used for animal feed.

TA to producers (farmers) for non-traditional crops is best supplied by highly focused services provided by exporting firms that market the product, or by well-designed donor-supported projects, rather than by government agencies, which do not understand market requirements and often use outdated technology. Exporters can usually only afford to supply technical assistance to the *larger* outgrowers.

The higher the value-added the more difficult it is for micro and small enterprises (MS) to participate in NTAEs, but the greater the market and margin opportunity. Products that are easier to produce most often yield lower margins, which then require larger minimum size operations. Therefore, there is an inconsistency between direct participation by MS in NTAEs and their financial and managerial capabilities.

NTAE exporters face a number of key constraints, including the following:

- Much of the market information assistance and technical assistance must be imported because there is little in-country experience.
- The quality of Kenya's and Uganda's products (especially with respect to pesticide residues) and limited reliability of air cargo space are the major problems perceived by the EU, *the market*.

- Exporter cooperation (e.g., in associations) must be carefully managed due to competitive (cartel possibility) considerations. That is, exporter involvement could lead to a monopolistic situation.
- Effective and efficient air freight handling, which is crucial to the quality and timeliness of perishable exports, is typically inadequate and needs upgrading in East Africa.
- An adequate water supply is essential to production of fringe season NTAEs; therefore, water availability problems may limit continued NTAE expansion.
- Adequate physical infrastructure is essential to cost-competitive and high-quality NTAE products, yet Kenya's infrastructure is deteriorating, especially rail and road to Mombasa, port management is poor and the power supply is not consistent to Uganda, which relies on Mombasa's port, is even more constrained than Kenya. Uganda's infrastructure deteriorated during the 1970s and 1980s due to protracted civil war.

Implications

Given that resources are scarce and assuming that the enabling environment is sufficiently supportive, USAID projects may best be focused on support to a few high-potential, medium-size firms, as determined by subsector market opportunity studies. Guidelines need to be developed for these studies.

Flexibility and quick response must be features of USAID projects assisting an embryonic NTAE sector because of the rapidly changing conditions that characterize export markets. Other significant recommendations for USAID include the following:

- More private/public/donor dialogue is required, especially in the project design stage, to avoid suboptimal designs that must be corrected when applied to the real world.
- Project designs that encourage vertical integration (or at least extensive coordination) will improve the cost, timing, and quality competitiveness of high-value exports.
- More emphasis should be placed on processed products for export as a way to deal with high air freight costs and space shortages, and as a way to use lesser grade product.
- Project staff must have direct export commercial experience to be of significant help to exporters.
- Sectoral workshops are more expensive and more difficult to organize than general workshops, but their impact can be much greater.
- Recipient matching (50 percent suggested) is important for donor grant effectiveness. Significant marketing TA must accompany grants (especially to MS) if they are to be used effectively.

5.2 ASSOCIATION DEVELOPMENT

Key Findings and Lessons Learned

Associations may be groups of (a) processors in a particular agribusiness subsector, (b) general or specialized exporters and producers (farmers), or (c) some combination of the two.

Planners of association development projects must determine at the outset if the conditions exist for association success and what type of programs are needed to stimulate that success. Associations are not likely to develop until an industry gets beyond the embryonic stage that is, association development tends to *follow*, not *precede*, industry development. Association success criteria are: (a) strong leadership with a long-term commitment, (b) leadership that is trusted by members, donors, and government, (c) minimal government influence, and (d) a clear and relatively narrow focus.

Institutions or associations are only as effective as their management personnel. Therefore, management training for associations, especially financial management and how to develop or adapt programs that respond to members' evolving needs, is a high-yield donor contribution to association development. Increasing management/leadership skills through training is only effective if trained individuals remain with the organization. Developing and retaining key project and association personnel are key tasks, since experienced managers are in great demand.

Association organizers must be aware that there are trade-offs with regard to size and scope of associations. "Voice"—the impact that association positions can have on policy—usually requires a large membership, but an association can more effectively provide services to its members when it has a narrow focus, such as flower exporting. In industry associations that include both large and small members, the "big tend to pay while small tend to use," a problem that can weaken or destroy the association. Therefore, a degree of homogeneity in size of firms is desirable.

Vertically integrated producer/processor associations provide donors with the opportunity to successfully support NTAE development while reaching small-scale farmers. This type of association is *most* effective when the exporters are few in number and work with relatively large-scale outgrowers, permitting a more cost-effective working relationship.

Well-focused *and well-managed* associations can bridge the gap between small farmers and the complexities of NTAE markets. Working though self-help groups (SHGs) of small farmers is one way to leverage scarce TA resources. For example, in Kenya, KESSFA (a small-scale farmers association) acts as an intermediary between farmer SHGs and large exporters.

Associations will become self-sustainable only if they effectively and efficiently serve members' priority needs. A minimum score on an annual membership satisfaction survey, conducted by a third party, should be a condition for continued donor support of an association.

- Associations can be a good, leveraged way to provide TA to NTAEs enterprises, especially to MS.
- Guidelines need to be developed to assess an association's potential for success. The AMIS II project has started developing such guidelines.
- *Matching* grants for institutional and activity development are effective because they stimulate member involvement and commitment.
- To enhance "voice," more members are needed, even if this means combining subsectors such as flower, fruit, and vegetable exporters. For TA to be effective, it must be directed toward a relatively narrow range of subsectors, types, and sizes of firms/members.
- Organizations structured like cooperatives structure are much more regulated and influenced by the Kenyan and Ugandan governments than are associations. Thus, commercial associations should be organized as corporations rather than as cooperatives, not only to avoid the political problems cooperatives have in Kenya, but also and to take advantage of the more pragmatic orientation of a corporate structure.
- "Social" problems (e.g., ethnic tension, cliques, poor cooperation) are more prevalent at the MSE association level. SHGs, on the other hand, are more culturally homogeneous and work together more efficiently.
- Poor "real" price information can cause problems for association marketing efforts because members become disenchanted with the price they receive from the association for their produce.
- Too many micro participants in a commercial association can cause accounting cost problems (i.e., many small accounts with a high maintenance cost versus the value of the transactions).
- Consistent collection and equitable distribution of exporter cess payments is needed to achieve and retain credibility for cess payments as an industry development mechanism.

Implications

- Mechanisms must be developed for identifying the most viable and sustainable associations. A good association "needs assessment methodology" if it is to address priority needs, establish model associations, devise association performance measurements, and develop sources of financial support.
- Membership satisfaction surveys should be conducted annually; there is currently no objective mechanism available for assessing membership

satisfaction, and effective use of this tool would help associations effectiveness, and therefore sustainability.

- Donors can help associations focus (or refocus) their efforts during the critical early years by providing financial support which requires meeting conditions for sustainability.
- Donors should not specify in the project design which associations a project must work with. Rather, the design should allow flexibility to support those associations with the most potential and those that are the most cooperative.
- Associations must operate independently of both the government and from politically motivated power brokers.
- Technical support from donors, and possibly alliances with similar associations in other countries, is very useful for associations involved with exports because it is difficult for them to obtain information from outside the country.
- A fully integrated commercial association may be the most viable way to establish linkages between MSE producers and exporters.
- The most cost-effective way to serve the needs of small producers and enterprises may be through associations of SHGs, since they can provide double leveraging when they are association members.
- Management training should be a component of any USAID program to assist associations.
- Potential and current member education programs are important to help differentiate associations from cooperatives, given coops historical image problems.

5.3 SMALL AND MEDIUM ENTERPRISE DEVELOPMENT

Key Findings and Lessons Learned

Small, marginal enterprises should not receive donor support until a thorough study of their economic viability is completed. Investing project resources in small potential (niche) market start-up industries is particularly risky and very expensive.

Conditions for successful smallholder (producer) participation in NTAEs exist when they involve: (a) niche markets where producers have very few alternative buyers for their output, (b) low capital but high labor intensity, (c) a full-service local exporter supporting the business, and (d) a well-established international market with experienced buyer/exporters.

The two most important constraints to SME development are the entrepreneurs' (1) lack of marketing expertise and (2) minimal knowledge of and access to sources of financial assistance (especially working capital) and how to apply for it. Donor assistance should concentrate on these two areas.

Self-help groups are a useful way to leverage development resources aimed at SMEs and in many instances may be the best way to serve the needs of small agribusinesses. Another way to assist SHGs is to link them with large enterprises that can provide inputs, technical assistance, and markets. However, this latter type of activity requires intensive, hands-on management assistance by donors if it is to be successful.

Other important lessons learned include the following:

- Shortages of capital and TA, especially as related to marketing, are the major limitations for SME participation in NTAEs. SHGs can help overcome these limitations, especially in tandem with well-managed associations.
- The MSE dropout rate is very high due to a lack of financing, collateral, and management expertise.
- Organizational integrity and the integrity of *key individuals* is very important to help maintain a positive attitude on the part of beneficiary SMEs.
- It is difficult to build and *retain* local capacity within an SME support project *ahead* of clients' needs.

Implications

- SHGs and associations can be used to make efficient use of expensive USAID and/or other projects' SME development resources.
- Ongoing and hands-on (high direct involvement) services are very important to the success of SMEs.
- It is difficult to provide assistance on a strictly commercial basis at the micro level because many enterprises that want help will never be able to pay for the needed services.
- Investing in start-ups is *very high* risk because they have a high failure rate.
- A significant portion of direct SME assistance should be focused primarily on local or regional (versus developed country) markets because the market requirements are less strict than those of developed country markets and they are vastly larger (up to 60 times the size of export markets).
- To be successful, MSE marketing services must be *highly* focused, probably even to the level of niche markets.

5.4 FINANCIAL SERVICES DEVELOPMENT

Key Findings

A major financial need of SMEs is working capital. Without access to financing (both debt and equity) it is very difficult for agribusinesses to grow. As previously mentioned, sources of finance and how to access them are not well known by SMEs. The major constraints to agribusiness lending by financial institutions are the shortage of commercially viable projects and poor loan and investment "packaging" by the borrower, not a lack of available funds. Therefore, technical assistance, for at least business plan development and loan or investment "packaging," should be programmed into any donor-supported financing project. Donors can help MS in this area at reasonable cost by providing the services of specialized local business consultants to appraise and package small projects.

Rigorous application appraisal by the lender (a feasibility study if the project is large enough to support the cost) is necessary, and the *borrower should supply a minimum of 50 percent of the equity* in the venture. In many cases, it is advisable for the lending institution to make direct payment from loan proceeds to the major suppliers of equipment to avoid misuse of the borrowed money.

Loan defaults by SMEs can be minimized by providing specialized TA via group lending supplied through associations or SHGs. Such training should include discussions of how to match earnings streams from a financed activity to the funds needed for repayment of the loan. This will help overcome the problem of the gradual decapitalization of an SME in order to meet loan payment schedules.

Funds provided without TA to in how to use it effectively are often not repaid. The difference between a grant and a loan is unclear at the MSE level. Therefore, communications with the borrower must be very clear on repayment expectations. Furthermore, financial services projects need to include or identify sources of effective TA for their clients.

Implications

- Design and management of financial projects carried out by finance professionals are usually more effective because the principles involved are often not well understood by USAID managers.
- Detailed screening of financing applications by *business* (versus loan officer) professionals *can* facilitate lower collateral requirements. Experienced business operations managers are needed if loans are to be based on criteria other than profit-and-loss and balance sheet analysis.
- Success of financing projects will likely require multidonor/agency cooperation, given the substantial resources required for a minimum size entity. Cooperation between USAID and IFC/WB or other financially oriented agencies such as CDC will increase the chance of project success,

although it will also increase the complexity of the project.

- The skills of local business consultants need to be continually developed through donor-supported training programs. Full cost recovery for services at the SME (and certainly micro) level should not be expected.
- Special care must be taken to help borrowers set aside funds from the earnings stream of the project being financed to repay the loan. However, loan repayment cannot be the only criterion used to measure the success of an MSE financial services project.

5.5 MONITORING AND EVALUATION

Key Findings

M&E systems are designed to improve the impact of donor projects by providing an understanding of the progress, or lack thereof, toward objectives as the project is implemented (which may lead to mid-course adjustments) and assessing the results versus expectations upon project completion.

USAID agribusiness project M&E is in an early stage of development, but it is more advanced than that for most other donors. Substantial opportunity exists to enhance USAID project M&E, especially as related to direct and indirect impact by project component and type of beneficiary, and, cost versus benefit analysis. Current mid-term and final project assessments need to be more rigorous on cost benefit analysis and need to focus more on beneficiary impact evaluation versus macro level impact. More *random* beneficiary sampling should be used, rather than the current sampling, which is guided by project management. A project should also be assessed a reasonable length of time (e.g., two years) after its completion to determine the sustainability of accomplishments.

A key assessment that needs to be completed *before* project initiation is the amount a subsector must grow to achieve a reasonable payback on the resources invested in that subsector. For example, how much does the $64-million Kenya horticultural export industry have to grow to achieve a satisfactory payback on the $15-million KEDS project?

Progress toward financial self-sustainability should be one of the main measures of performance for projects that provide support to associations. Because associations' ability to manage cash flow is typically weak, the development and monitoring of a "sources and uses of funds" schedule is an important performance evaluation tool.

Membership satisfaction is another prime indicator of the performance of an association. Membership surveys or polls should be carried out annually, and to ensure credible results they should be carried out by professionals. One element of such a survey for an association that markets producers' output is a comparison of the price received from the association versus selling through buying agents—taking into account the value of other benefits a member receives from the association. Associations should earn a minimum annual membership satisfaction score in order to continue to receive donor support.

Project evaluations should include breakdowns by type and size of beneficiary, including costs of services provided versus benefits; for example, increased output versus the cost of services provided by firm size. Input/output (cost/benefit) analysis is a useful tool to measure direct benefits against direct costs both for the overall project and for project components. This should be done on a quarterly basis and reviewed/managed by USAID personnel.

The frequency of use of private sector advisors and the impact of their contribution should be monitored to ensure that agribusiness project managers are using private sector expertise effectively.

Information on the secondary impact of assistance to large firms (e.g., employee income and how it is spent, business generated by purchases of supplies and equipment from local suppliers, or services provided locally such as transportation, legal and accounting services, insurance) should be collected and analyzed. This will facilitate M&E of the full impact of support to larger firms.

Implications

- Performance measurement that focuses on macroeconomic or aggregate trade statistics may be less informative than measurements that focus on the progress or success of assisted firms, because it is very difficult within the comparatively short timeframe of a project to *directly* affect macro measurements.
- All projects need more breakdowns by type of beneficiary (e.g., number of clients served, cost of efforts, and output increase) and *by size of firm*.
- More client (exporters, government, USAID manager) satisfaction assessment (qualitative) is needed as a part of project M&E.
- Quality, coverage, timeliness, and pragmatism of quarterly project reports, including an M&E matrix by project component, need improvement.
- Better and more specific *sources* and uses of funds projections are needed for entities and projects seeking support.
- More focus on a project's value (vs. tonnage) increase is needed for NTAEs, especially the amount of in-country value-added as the result of a project.
- Donors need to review project objectives at least annually to determine if adjustments are necessary.

5.6 GENERAL RECOMMENDATIONS

The following do not fit into the above areas of focus but they are relevant to agribusiness project design and implementation.

- A thorough opportunities and constraints analysis is needed before decisions are made about Mission support to commercial enterprises in a given agribusiness subsector. This is necessary to prioritize the subsectors of primary interest. The analysis should pay particular attention to the competitive advantage of the product in its target markets as well as to the availability of trained personnel and the necessary financial resources. Operations constraint analysis is a useful tool in this process.
- Semiannual project review forums (½ day with a broad group of beneficiaries, local government officials, and private sector representatives; ½ day with the project team) can be used to coordinate project activities, improve their effectiveness, and enhance a feeling of local "ownership" of the project.
- Private sector advisors, both expatriate and local, should be used more extensively by USAID Missions in the design and monitoring of agribusiness development projects because they have a much better perspective on the challenges and opportunities they face than do government employees. Direct, local business experience is likewise important in helping to prioritize and pursue policy reform issues related to private sector development.
- Identifying and developing an effective *intermediary organization* (e.g., an association, an FADC, or an NGO/PVO) is important for leveraging scarce project resources in agribusiness development projects.
- Active steering committees, with extensive private sector participation, must play a strong role to ensure success at all stages of project implementation.

5.7 ISSUES DESERVING FURTHER STUDY

The following issues are unresolved questions for which there are no apparent answers. Answers to these questions, however, would enhance agribusiness project design and implementation in East Africa. Each includes a suggestion for resolving the issue.

- How effective is most general market information? Large firms say they don't need or use it, and small firms don't know how to use it. There is a need to develop effective ways to measure the usage of market information versus the cost of providing it, especially by type of information and type of user?

- Is broad-gauged baseline monitoring data really necessary? Segregating dependent and independent variables in macro impact measurement is very difficult, and the cost of direct impact macro measurement is usually quite high versus the benefits realized. Consider measuring the progress of assisted firms and the associated indirect benefits as a satisfactory way to determine the impact of a project.
- Can commercial associations be used to improve input supply, replacing outmoded state or cooperative channels? Conduct an investigation of how commercial associations can be developed and supported to function as middlemen between MSE producers and exporters, thus enabling some economies of scale.
- How can the potential be optimized for outgrower/contract grower schemes on the model of the silk and vanilla projects in Uganda, schemes that have successfully reached out to both small farmers and women? Assess the specific circumstances and methods for developing sustainable outgrower schemes, especially for specialty NTAEs.
- What is the best way to effectively communicate needed agribusiness skills to local agriculture and business schools? Determine how the current and anticipated skill needs of agribusiness can be communicated to local agricultural and business schools and how private sector leaders can play a more active role in curriculum development and teaching.
- Should or can micro and small enterprise support institutions become self-financing? Assess the financial payback amount and likely term on MSE projects and determine if a reasonable payback can be achieved. If not, what other M&E should be developed to assess these types of projects.

6. Key Findings from West Africa

This section summarizes key lessons learned and implications for USAID of the *Innovative Approaches* work in the West African countries of Ghana, Mali, and Senegal.

6.1 NTAE DEVELOPMENT

Key Findings

USAID has successfully promoted NTAE development in Ghana, funding an $80 million Trade and Investment Project (TIP) with a $20 million technical assistance component. TechnoServe and AMEX are providing technical and export management support to SMEs entering into or expanding exports of NTAEs as well as nonagricultural products. The major NTAE benefit has been expanded pineapple exports.

NTAE promotion in Mali has had limited success to date. The Animal Production and Export Project (APEX) of USAID has worked closely with producer groups and traders to promote traditional livestock exports to the established market in Côte d'Ivoire and the new, emerging market in Senegal. Promotion of non-traditional livestock products, particularly chilled or frozen meat and processed hides and skins, has not been successful, in large part because innovative firms and traders require significant capital investments that APEX is not able to finance. The development of new marketing channels for non-traditional livestock product exports, in addition to the required upgrading of infrastructure, has not taken place. A reassessment of market opportunities for chilled and frozen livestock products in regional West African markets following the 1994 devaluation, and a thorough analysis of the potential competitiveness of processed or semi-processed hides and skins in EU markets should precede any investments in the development of NTAEs in the livestock subsector.

Under DHV (Developpement de la haute vallee) USAID/Mali is working closely with producer associations to upgrade fruit and vegetable production for export to the EU. The Association malienne des exportations des légumes et des fruits (AMELF) receives technical support and encouragement from COLEACP, an EU-based horticultural export support institution, but its funding and effectiveness are limited. Mango exports are the major fruit NTAE, although they have been exported for years. Green bean exports are relatively small but expanding.

Lessons Learned

- Expansion of NTAEs in Ghana and Mali is restrained by firms limited access to export finance, even when they are provided with managerial and technical assistance.
- Intraregional trade in NTAEs in West Africa is restricted by costly transport, relatively undifferentiated demand, low purchasing power, similar resource endowments and production possibilities (within the Sahel and within coastal West Africa), and poor infrastructure.
- USAID promotion of NTAEs from West Africa to the EU has achieved some limited success in Ghana and Mali. Technical assistance in production and export marketing management has been a key element in this success; little or no emphasis has been placed on market research and financial support. Promoting NTAE to high-income markets requires the full range of technical, management, and financial support services.

Implications for USAID

- Future USAID NTAE promotion projects would be more effective if designed with an *integrated* package of financial, managerial, and technical assistance to optimize the performance of each separate project component. Existing projects would benefit from the addition of missing components to fill current gaps in service.
- Donors interested in promoting intraregional trade

need to take a hard look at real trade opportunities among West African countries, rigorously evaluate the current performance and competitiveness of trading enterprises, and select known high-potential commodities/enterprises for intensive, direct promotion.

- USAID NTAE promotion projects would be more successful if they included finance and market research/intelligence dimensions. To consolidate the gains of TIP in Ghana and DHV in Mali, second-generation projects that include these other dimensions could be designed. Alternatively, the establishment of an intermediary organization, such as an ASC, that provides an integrated package of services, including finance and market research, to SMEs exporting non-traditional agricultural products would be very realistic.

6.2 ASSOCIATION DEVELOPMENT

Key Findings

Agribusiness association development in the three study countries is limited, although it is more advanced in Ghana than in the two francophone countries. The largest and best-funded industry and trade associations in francophone countries tend to be general business organizations, which represent formal sector (large) firms across several sectors, although traders are heavily represented. Historically, these organizations were closely associated with governments, often receiving a significant portion of their funding from earmarked taxes. Ghana differs in that it offers an umbrella organization that represents many disparate export-oriented commodity associations. This Federation of Associations of Ghanaian Exporters (FAGE) was created in 1993.

The francophone economies have been characterized by much government intervention and participation, although this is changing and a more receptive business climate has been created, encouraging association formation. The overthrow of the Traoré regime in Mali in 1991 and the formation of a democratically elected government have removed political barriers to association development and lobbying the government for change. In Senegal, associations consult with the government on steps to strengthen the private sector at large. In contrast, Ghana's economic liberalization predates that of the francophone countries, having begun in the early 1980s, and many associations have formed, although quite a few have limited membership and resources.

The range of services provided by West African trade associations is limited, centering on lobbying governments for trade policy, general regulatory, tax, and investment reform. Few associations offer technical services in the form of training workshops, assistance in developing business plans or accessing sources of finance for business expansion, market intelligence and market information, or any industry- or commodity-related research or analysis.

Association management is generally weak in West Africa. The smaller the association, the more likely that association managers are member-managers who work part-time for the association and full-time managing their own businesses. Even a large umbrella organization such as FAGE has only two full-time professional staff. Strengthening association management should be a donor priority, particularly in encouraging the emergence of viable interest groups in democratic civil society. The requirement of large, broad membership in order to hire full-time professional managers represents a dilemma for smaller, commodity- or subsector-specific trade associations. Hiring professional managers to lead umbrella organizations and provide them with training and technical support to work closely with the mostly part-time managers of member associations is a pragmatic and realistic strategy in light of prevailing resource limitations.

FAGE, whose creation was funded by USAID/Ghana's TIP, is instructive in several regards. FAGEs objectives include (a) strengthening member associations, (b) improving NTAE production techniques through technical assistance, training, and other donor-funded programs, and (c) representing the technical and service needs of NTAE growers and exporters to the Ghanaian government. Although FAGE represents fourteen commodity-specific associations, its unifying theme is NTAE promotion. Through TIP, IESC provides ongoing financial, organizational, and technical assistance to FAGE. Finally, FAGE management expects it to be entirely self-financed within five years of its creation.

It should be noted, however, that FAGE's early success is in large part a function of donor financing and TA, which has provided a jump-start, and the fact that NTAEs are of a sufficiently large volume and value ($124 million in 1993) to justify formation of such an umbrella entity. Countries such as Mali and Senegal, whose NTAEs are far more modest in volume and value, are not yet ripe for umbrella organizations. Indeed, there are too few commodity- or subsector-specific associations to form the base for such an umbrella. Hence, the formation of an umbrella organization should follow the emergence of a robust association movement in an African country. This, in turn, depends upon a dynamic and growing economy, where firms are willing to pay dues to fund subsector- or industry-based associations that can help meet specific needs. Finally, since associations typically focus initially on policy and regulatory reform, a receptive or neutral government is a prerequisite to widespread and sustainable association development.

In the two francophone countries visited during this study, AMELF in Mali appears to be the most promising agribusiness association. Comprising mainly fresh produce exporters of mangoes and French beans, AMELF is 100 percent self-financed, growing (from five members in 1992 to eighteen in 1994), and working closely with the regional Comité de Concertation, a working group of fresh produce association representatives from francophone West African countries,[8] and with COLEACP (Comité de liaison Europe-Afrique-Caraïbes-Pacifique pour la promotion des exportations horticoles) an EU organization that promotes the development of horticultural and ornamental exports from ACP countries to Europe. Although AMELF leadership is part-time, it is dynamic, knowledgeable, and oriented toward international business.

Lessons Learned

- Trade associations are more likely to emerge in African countries where the government is ceasing heavy-handed participation in the economy and the political environment has become progressively more liberal.
- Small associations typically lack full-time professonial management, have limited funds, and may not be able to deliver services that respond to members' priority needs. In fact, they may not even know what their members' priority needs are, never having carried out a formal membership survey.
- Umbrella organizations, representing numerous related associations along the lines of FAGE in Ghana, can hire professional management and can lobby effectively for policy and regulatory reform that affect member associations. With donor or other external support, they also can offer other services, such as market research, training, and technical assistance in production, postharvest handling, and export marketing.
- Associations' objectives need to be compatible with their resources. If associations or umbrella organizations offer multiple services, sources of funding other than from members will have to be tapped. Nearly all of these alternative sources should be regarded as short-term infusions of funds to be used for capital expenditures, holding workshops, or providing technical assistance, and not as funds to be used for activities with recurrent costs that the association will have trouble meeting once external financial support is withdrawn. Sources of funding beyond member dues also need to be developed, such as publications, training/workshops, tours, selected input sales, and cesses on exports for export associations.

Implications for USAID

- Concentration on association development in African countries where the political environment is increasingly liberal and where the formation of associations and other interest groups is considered an essential ingredient to strengthening civil society, could be very fruitful.
- While USAID may be tempted to provide full-time management and technical assistance to commodity- or industry-specific associations, this is

usually misguided, as it raises member service expectations to an unsustainable level. Instead, such assistance is better targetted to umbrella organizations which can provide intermittent, well-defined, and focused TA to member associations. AMIS II, through its industry contacts and member trade associations, can access the type of high-quality technical and managerial assistance in a wide array of special skills, including association development and management.

- USAID and other donors can most efficiently gauge the impact and effectiveness of association services by funding independent evaluations that focus on member satisfaction. Annual member surveys should be required for continued donor support. Ultimately, associations should develop the capacity to carry out member surveys themselves or the capacity should be developed in a local market research firm.
- Association management, including financial management, needs to be strengthened.
- Umbrella associations should be promoted to provide affordable professional management when enough specialized associations have been developed.

6.3 SMALL AND MEDIUM ENTERPRISE DEVELOPMENT

Key Findings

SMEs are the most dynamic and nimble firms that could be used to expand NTAEs from West African countries. However, while their small size allows them to be flexible and responsive to changes in the market, they lack access to finance, technical assistance in production, postharvest handling and export marketing, sound financial and export marketing management, and up-to-date and in-depth market intelligence (unless they have an established relationship with an EU importer). SMEs require a great deal of support, especially if they are planning to export or expand exports to developed international markets. Trade associations provide some assistance, but the assistance to SMEs is limited due to the small budgets and the often part-time management of associations.

SMEs are not well-served by financial intermediaries in Mali, Senegal, and Ghana, in large part because they do not meet strict lending criteria, particularly collateral requirements. In addition, many development projects target producer, community-based, and trader groups in rural areas because the project sponsors believe that these groups have more difficulty than SMEs accessing financial services. Credit extended to SMEs is limited to short-term loans of generally six months or less; medium- and long-term finance for investments in plants and equipment is unavailable to SMEs intending to expand or diversify.

Given the absence of an integrated package of services to agribusiness firms, with the partial exception of TIP in Ghana,[9] several West African countries are candidates for ASCs which offer financial (debt and equity) as well as other technical and managerial services. Where there is sufficient common need for fixed assets such as transport, cold stores, or international communications equipment, these could be provided by the ASC and shared by SME clients. While an ASC could play a valuable role in many countries, ASC sustainability would be in large part a function of the underlying economic and agribusiness strength of the country, medium- to long-term sector growth prospects, and the ratio of micro and small size enterprises to medium- and large-size enterprises.

Lessons Learned

- SMEs require targeted financial support for expansion or diversification. Dependence on self-financing limits the amount of capital available for growth and restricts SMEs' access to working capital for procurement, meeting operating costs, and export financing.
- While the African Project Development Facility (APDF) assisted some firms in Ghana with feasibility studies and preparation of business plans that can be presented to commercial banks and potential investors, the APDF can work with

only a few SMEs each year. These SMEs are in reality *large*, formal sector firms in the West African context, and quite a few are agribusiness SMEs, whose access to *equity* financing is extremely limited. APDF helps African firms obtain intermediate-term debt, but further financial services such as working capital and equity are required to serve SMEs.

- SMEs also require additional support beyond finance. While the TIP project in Ghana effectively provides most other NTAE promotion services, including production assistance, export marketing management training, and support for association development, other important services are not provided, include market information and intelligence and technical assistance in postharvest handling, processing, storage, and packaging.

Implications for USAID

- A good way to complement APDF and the Venture Capital Fund (GVCF) in Ghana, is to meet the financial needs of SMEs is through support to an ASC. In addition to integrating and complementing assistance to SMEs provided in large part by TIP, creation of an ASC would lay the groundwork for ongoing, self-sustaining services to SMEs in the post-TIP environment.

- Support to *existing* SMEs is the best way to generate expanded NTAEs in the medium term. Donor collaboration to provide SMEs with the full package of agribusiness support services they require. ASCs can provide many of these services, as well as access to a local, (i.e., external to the ASC) network of service providers. As the initiating donor, USAID can play an important catalytic role.

6.4 FINANCIAL SERVICES DEVELOPMENT

Key Findings

A major finding of this study is that financial sector policies and regulations are extremely important. Without a reasonably liberal and open financial sector, agribusiness development tends to be suppressed, no matter how well-intentioned and professional the efforts of individual financial intermediaries. Furthermore, a liberal financial sector tends to go hand-in-hand with more open and progressive economies, where African countries have implemented structural adjustment programs, liberalized trade regimes, and adjusted their exchange rate periodically to reflect its real value. Findings in the West African countries selected for this study illustrate these points.

Francophone financial institutions are conservative, risk-averse, and constrained by regional (franc zone) interest rate ceilings.[10] Loans are concentrated in housing, industry, and other urban-based enterprises. Character-based lending or providing loans on the basis of cash flow are not standard practices. There is some group-based lending to farmer organizations and economic interest groups (GIEs), which is designed to spread risk and lower loan processing transaction costs. Francophone financial institutions focus on short-term finance and generally do not extend longer term credit (over one year), while investments often take five to seven years to provide a positive return. There are no domestic sources of equity finance to serve agribusiness investors and firms, especially SMEs intent on expanding or diversifying.

Ghanaian financial institutions in particular and anglophone financial institutions in general are far more progressive and more willing to loan to agribusiness firms. There is also a recently created venture capital fund in Ghana, which is a first for West Africa. However, SME NTAE promotion under the TIP is hampered by the absence of credit lines to complement TA and training (provided by TIP contractors, AMEX, and TechnoServe).

The **regulatory environment** in the francophone countries needs to change dramatically if these countries are to achieve the success promoting agribusiness development shown by Ghana. The fact that there are no viable and functioning APDF offices outside of the regional Abidjan office in francophone Africa is no coincidence; financial and monetary policy is made at the regional level, and individual francophone countries lack the autonomy to make such changes.

Changing the financial policy and regulatory environment is only a start in the process of improving financial services to agribusiness in West Africa. Once interest rate and other lending restrictions are relaxed, **it will be necessary to change the risk-averse attitudes of francophone bankers and loan officers.** They will need to be able to assess the risks and rewards of medium- and long-term loans to established firms. Loan criteria need to be driven less by collateral requirements and more by rigorous analysis of cash flow potential, quantification of risks, borrower financial performance (rather than just assets), borrower management capability, and the quality of business plans for expansion/diversification. Given the time and effort required to change the mindsets of bankers in francophone countries such as Mali and Senegal, there may be opportunities to create a special type of ASC—Food and Agribusiness Development Center (FADC)—that offers financial services to SMEs and access to debt/equity inter alia. It may be more effective to create new financial intermediaries to serve agribusiness than to undertake the long and difficult task of changing bankers' attitudes and retraining loan officers.

Strong financial markets tend to emerge where macroeconomic and trade policy regimes are most liberal. Proper exchange rate alignment, free-floating interest rates (which can be made high enough to compensate for often high levels of domestic inflation), and no restrictions on capital and profit/earnings transfers into different currencies are all key to the emergence of healthy financial markets.

Lessons Learned

- A reasonably liberal and transparent financial sector, with limited controls and restrictions on interest rates, foreign exchange, capital transfers, and use of funds, is a prerequisite to successful financial intermediation in support of agribusiness development.
- Agricultural sector and agribusiness investments and loans are perceived by bankers as more risky than loans extended to other sectors in West Africa. To overcome their resistance to providing loans to agribusinesses, it will be necessary to retrain and/or replace commercial bank and agricultural development bank loan officers who evaluate clients strictly on the basis of conservative criteria (collateral).
- Finance is an important missing link in the services chain provided to SMEs.
- Bankers hesitate to lend to producers because land tenure and title are uncertain in most of West Africa.

Implications for USAID

- In some West African countries, particularly francophone countries, there is a need for USAID and other donors to first concentrate on liberalizing and opening the financial sectors. Then removing restrictions on interest rates, capital transfers, and credit use will help to eliminate disincentives to providing financial services to agribusiness firms.
- When USAID or other donors provide funds to a financial institution in West Africa, they should also train loan officers how to evaluate loans to agribusinesses. Donors also should make funding to finance institutions contingent upon the institutions hiring professionals with business management experience as loan officers to serve agribusiness and other poorly collateralized sectors. In this way, loan evaluation criteria will become increasingly based on agribusinesses' ability to generate revenue and service debt, rather than exclusively on collateral.
- In countries such as Ghana, where USAID is providing many services to export-oriented agribusinesses through the TIP project, providing finance to SMEs through either a financial intermediary (which could be an existing contractor with a track record such as TechnoServe) or through a support organization such as an ASC, would enhance export development.

6.5 MONITORING AND EVALUATION

6.5.1 Financial Services

The monitoring and evaluation of loan portfolios by financial intermediary organizations generally attempts to follow internationally accepted financial and accounting conventions. Actual financial performance of some financial intermediaries, however, leaves much to be desired, as loan reimbursement rates are low, the ratio of loans to deposits is high, and provisions for bad loans are inadequate. Lender leniency in requiring loan repayment, as in the case of CNCAS's (Caisse Nationale de Crédit Agricole du Sénégal) widespread forgiveness of delinquent borrowers on a national scale twice in recent years, does not help the cause, as borrowers tend to regard loans as outright grants rather than as financial obligations that must be repaid with interest. Many ultraconservative, risk-averse commercial banks experience high loan repayment rates and a good return on their portfolio, but their portfolios are typically unbalanced (loans are concentrated in urban real estate and lower risk import/export businesses), with many of their funds invested in relatively low-risk/high-yield treasury bills. Liquidity ratios also tend to be high; that is, they hold a lot of cash.

More detailed information about the composition of loan portfolios, particularly loans to agribusiness firms, would be useful for the M&E of financial intermediaries serving agribusinesses. Periodic breakdowns of agribusiness loan portfolios by loan size, borrower type/size, and length of loan (short, medium, long-term) would provide valuable information. In addition, rigorous M&E of financial intermediation requires tracking the business and financial performance of assisted firms. If results are disappointing, donors and financial intermediaries can reexamine the firm's business plan, check to see if initial assumptions were borne out in practice, and determine if other support services are required (e.g., TA, training, hands-on management assistance, market intelligence, identification of new buyers).

Finally, it is important for financial institutions to hire loan officers who are trained in business management. Rather than just focusing on creditworthiness with respect to conventional and conservative criteria, these new hires could examine the potential for agribusiness firms to generate cash and how quickly they would be able to pay back loans based on reasonable assumptions about operating levels, revenues, and profits. This approach requires going beyond a focus only on the cost side of the equation; analysts would concentrate on market considerations, enhanced productivity, output, and returns.

6.5.2 Association Development

M&E of trade association development in general has been poor, in part because quite a few associations are self-financed or at least not financed by donors. When associations or umbrella organizations are financed by USAID, their performance is reviewed informally periodically and formally under project evaluations. There does not appear to be ongoing monitoring of association performance other than taking stock of membership numbers and association activities, however. A framework for the M&E of association performance and impact was described earlier in Table 3.1.

Lessons Learned

- When a donor agency such as USAID provides little or no M&E guidance to a financial institution, association, or other intermediary organization, M&E will not be satisfactorily carried out.
- In African countries where the government intervenes directly and heavily in the economy, M&E of financial institutions is not a high priority. Even where broad-based business support organizations are present in these countries, their activities are often not closely monitored and evaluated.
- Financial institutions tend to monitor and evaluate performance by tracking conventional financial ratios and measures that apply to their portfolio, rather than on the performance of the business that received financing.
- Neither the impact of association activities on members nor member satisfaction with association services are effectively monitored and evaluated.

Implications for USAID

- Insistence on M&E and the provision of straightforward guidance for designing, implementing, and interpreting internal M&E systems to both financial institutions and associations that receive USAID funding and TA are essential to the success of financial services projects.

- Commissioning independent surveys of the business performance of clients of financial institutions and "customer" satisfaction surveys of members of trade associations is vital.
- Key aspects of a firm's business performance that should be examined include how effectively they use finance, what precisely they do with the equity/debt, what the results are in terms of throughput, employment, sales, profits, return on investment, and debt-to-equity ratio, how well firms service the loan, and the increase in net assets and/or share values.
- Annual member satisfaction surveys will rate (on a scale of 1 to 5 or 1 to10) the quality, effectiveness, and amount/quantity/frequency of various association services, as well as rank order members' priorities for the coming year.
- USAID should help develop and strengthen the capacity to conduct such surveys within the private sector. Specialized firms may be able, over time, to take on much of the "internal" M&E that needs to be done by financial institutions and trade associations.

6.6 GENERAL RECOMMENDATIONS

6.6.1 Association Development

Associations are not the solution to all the problems of SMEs or NTAE development in West African countries. If properly managed and reasonably well-funded, associations can meet certain needs, such as lobbying government for policy and regulatory reform and infrastructural improvements, and providing management and financial training to members. Associations do not typically provide finance, however, and their influence over financial intermediaries is quite limited. By promoting a positive professional image and a high set of standards for a subsector or an industry, associations can indirectly improve member firms' access to finance. Providing SME agribusinesses with financing is a very high priority, and this function could be performed by an ASC or other financial intermediary. Associations need to work closely with such an entity.

In several countries, where subsector- and industry-specific association development is well under way, donors can help create umbrella organizations that can provide greater lobbying clout on a broad set of policy, regulatory, and infrastructural issues. The lesson from the FAGE experience in Ghana is that donors need to provide several years of TA, training, and financial support, but they should plan to withdraw funding in phases so that the umbrella organization gradually is forced to generate and rely upon its own funds (and hence demonstrate sustainability).

6.6.2 Financial Services Development

There are two major ways to increase the share of credit going to agribusinesses in West Africa. One is to provide loans at multiple levels of leading subsectors, such as cotton in Mali or horticultural products destined for export in Ghana and Senegal. Loans are provided to producers for input purchase, to buying firms for buying the crop and transporting and processing it, and to exporters who require short-term export financing. In this way, loan programs are well integrated and coordinated. Loans to enterprises at different stages of targeted subsectors work well where there is an established international market for the output and where buyers are willing and able to pay hard currency; hence, the ability to recover funds is never in doubt (unless there is a severe drought, for instance, in the case of a rainfed crop such as cotton). Production credit and meeting the working capital needs of buyers, processors, and exporters are both necessary, because agribusinesses in targeted subsectors often lack funds for demanding short-term uses. The discussion about credit also applies to equity. In summary, debt and equity can be provided effectively for an interrelated set of agribusiness activities, where the underlying integrating and organizing principle is subsector development.

A second way to improve the performance of agribusiness finance is by providing finance to a particular type of enterprise, typically SMEs, along with other services (technical assistance in production or marketing, training, business planning, export management, market information, buyer identification/screening). The package of technical/management assistance and services is therefore integrated. Such integration is difficult to achieve for a financial entity because it rarely has much knowledge about nonfinancial services. Another type of agribusiness support intermediary organization, such as an FADC, is better able to achieve such integration. In fact, the historically poor performance of credit programs that are not linked to an integrated package of technical and managerial services is a strong argument for testing FADCs as a promising innovative approach to agribusiness development.

6.7 ISSUES DESERVING FURTHER STUDY

In this section, unresolved issues and knowledge gaps are identified, and a series of questions are posed.

6.7.1 Association Development

1. Under what conditions in SSA and other developing countries have umbrella organizations been created and played a positive role in promoting agribusiness development? What services can they provide effectively and what services are they unable to provide to member associations?
2. Based on USAID experience worldwide, how should association services be most effectively scaled to association resources? Which services should receive funding priority and under what conditions? What are the implications for how much financial and other support (i.e., what proportion of total association funds) USAID should provide to weak or newly created associations? What sources of funding have been developed beyond dues and donor support?
3. What is the role for "commercial" associations that sell inputs to members and market their output (especially for micro and small enterprises)?
4. Which types/size of firms should associations focus on recruiting as members? Can large and small firms be well served by the same association?
5. How should member dues or contributions be set: on the basis of sales, total revenues, employment, or some other criteria?
6. How can associations most effectively represent an industry or subsector to financial institutions? Under what conditions might an association be used as a financial intermediary?
7. How can associations work most effectively with an agribusiness service center such as an FADC?

6.7.2 Financial Services

1. How can financial, managerial, and technical services be most effectively and efficiently integrated into a single entity that is targeted on a specific high-opportunity subsector or firm type? How can a broad base of financial, technical, political, and "network" support be developed for such an entity?
2. Is the positive transformation of ADB in Ghana transferable to financial institutions in francophone countries? How can financial organizations that have not served agribusiness be made to change their orientation, attitudes, and performance?
3. Are conventional financial organizations such as agricultural development banks and commercial banks the best vehicles for channeling equity and long-term debt to agribusiness firms that seek to expand and/or diversify? What other intermediary organizations might be created to meet these needs?
4. In francophone countries with a poor track record of financial support to agribusiness development, what is the recommended sequence of corrective actions? Should donors focus initially and exclusively on financial sector policies, regulations, and investment climate? Or should alternative intermediary organizations be created to service agribusiness? Is it possible to overcome perceptions of agribusiness as risky and anti-agricul-

tural sector attitudes in a reasonable time period?

5. What has been the performance (independent of loan repayment) of micro-firms or groups that have received credit through an association, producer group, or economic interest group? Have these entities generated more income and profit? Has loan repayment been funded out of increased earnings or from some other source (sales of assets, cross-subsidization from another enterprise)?

6. How do regional financial and monetary policies and regulations affect agribusiness finance in francophone countries? What is the scope for changing restrictive practices, such as interest rate ceilings, in the short to medium term? Should credit programs *not* be funded in francophone countries where financial system constraints make decapitalization over the long-term unavoidable? Should donors focus only on providing debt and equity to selected SMEs that meet a rigorous set of criteria?

7. Key Southern Africa Findings

While the Southern Africa research addressed all of the key focus areas of the *Innovative Approaches* activity, it placed special emphasis on SME Development and NTAE Development. Therefore, these topics are covered in more detail than the others.

7.1 NON-TRADITIONAL AGRICULTURAL EXPORT DEVELOPMENT

Two major constraints to NTAE development are the shortage of entrepreneur working capital and a poor transportation system. Other important constraints are poor performance of the customs service, inadequate and inconsistent enforcement of tax laws, and excessive customs duties on inputs that are to be reexported.

Sources for working capital and reasonable cost debt should be made available to NTAE project beneficiaries, either by an NTAE development project itself or from members of the project's support network. Financial services are especially important for SMEs interested in NTAEs. Reasonable cost debt is very useful for non-integrated entities, since they are capturing a limited amount of the total available margin on a product, and for firms that are not directly exporting and therefore do not have access to debt at offshore rates.

Two very important enabling environment components that NTAE projects should focus on are: (a) transportation, both domestic roads and ports/airports as well as freight rates, especially air freight, and (b) optimization and proper enforcement of customs activities, including quick clearance of outbound goods and low/no duties on imported raw materials that are used to produce goods that are reexported.

Because support to SMEs for NTAE development requires considerable, diversified, and ongoing hands-on assistance, an institution that offers the *integrated* (finance, TA, and management services) services necessary is needed, especially one that has the support of the larger exporting firms.

When an NTAE development project is mature enough for project management to understand which subsectors have the *best* potential to support their objectives, managers should have the flexibility to target some of their resources on these sectors.

NTAE projects with SMEs as the primary beneficiary should include services that help SMEs *join together* to:

- Share expensive fixed assets.
- Purchase inputs jointly.
- Consolidate output, at least at the local level.
- Establish linkages with larger exporters to market their output.
- Negotiate subcontractor or outgrower relationships, especially for lower technology/higher labor requirement products.

For example, chances for the financial success of marketing projects involving small-scale producers would be improved if there were a joint packer/small farmer–owned center in a growing area that was responsible for land preparation, spraying, TA, output consolidation, cold storage, and transport. However, this type of project must ensure that when large exporters are buying from small producers or their representatives (e.g., an SHG), or from SME middlemen/wholesalers, that all participants understand the basis for establishing prices and terms. This may require donor assistance for communication materials and meetings to explain the basis for pricing and the different terms, as well as to determine how price setting can be made transparent on an ongoing basis.

The experience of several southern Africa exporters indicates that although the EU is a large market for

NTAEs, there also are viable *regional* NTAE markets, and other available non-African NTAE markets such as the Middle East and Singapore. Therefore, projects should investigate, and where viable develop, the less difficult to serve regional and medium-size export market opportunities, especially for SME exporters. Also, local markets should be assessed for their potential as outlets for off-specification and excess production so that at least some value is recovered for *all* production.

Innovative entrepreneurs with an intimate knowledge of locally available raw materials and a reasonable understanding of international markets can often develop good NTAE business propositions. Some of these propositions deserve further evaluation, especially where they can have a significant broad-based local impact. A donor-supported mechanism is needed to finance, most likely on a matching grant basis (which would be recoverable if the project became successful), the assessment of such propositions.

Rehabilitation of NTAE industries (e.g., the cashew and coconut industries in Mozambique) that were once quite large is of great economic importance but will be very costly and require joint and well-coordinated efforts by donors, the government, private sector participants, and producers.

7.2 SME DEVELOPMENT

Many donors believe that very limited equity availability and undercapitalization are the major constraints to SME development. However, inadequate infrastructure (especially power, telephones, and roads), high duties on imports of processing inputs, lack of access to finance (to pay for needed imports), poor local business services and input supplies (especially packaging), and competition from imports that often come in without duties are also important constraints to SME development.

Entrepreneurs' and managers' lack of experience and management training are major constraints in the early stages of private sector development, especially to SMEs. These constraints are usually more significant than technical skill shortages and make it very difficult for an entrepreneur to manage business in a way that enables repayment of financing.

Microenterprises, SMEs, and even local government entities find it difficult to pay for the full cost of business advisory services, especially those where the provider is not able to leverage expensive staff.

SME development projects move fastest when donors work together, pooling their resources and agreeing on common procedures. Such donor coordination means that applicants must satisfy only one set of requirements (i.e., fill out only one set of forms). While all donor agencies must be accountable for their own resources, they must not encumber the enterprises they assist with "home port" criteria. Therefore, whatever the individual donor requirements, jointly funded projects must have *one* set of performance criteria that all donors agree to use.

If SME entrepreneurs must work with several different institutions rather than one institution to obtain their business support needs (e.g., financing, TA, and managerial advice), the burden on them is much greater, paperwork much more complicated, and coordination problems much (e.g., inconsistent requirements) more likely. Therefore a fully integrated project that provides financing, TA, and management assistance is needed.

In environments with very few models of successful private sector enterprises a SME development program that links new entrants to the few successful current participants will increase the rate of SME development by creating more models and mentors. This would include subcontracting relationships and other very localized SME development activities sponsored by successful large private sector firms. There is also a significant need for SME cost competitiveness enhancement, possibly via training or mentoring by successful entrepreneurs. However, without donor assistance it will be difficult to achieve significant tonnage sales via SME linkages/outgrower schemes.

Projects that effectively and successfully support clients, especially SMEs, at a reasonable cost may have difficulty "graduating" these clients as they continue to have a need for business services as their companies expand and face new challenges. Turning these more developed clients over to qualified local consultants would enable the project to expand its coverage and reach (i.e., serve new, younger SME clients). However, the more developed the client, especially if they are exporting, the more sophisticated their consulting needs, and local consultants in these environments are unaccustomed to providing pragmatic business services, especially regarding ongoing operations. Therefore, a donor can effectively leverage its resources in these circumstances by developing local business consulting capacity, and local consultant training should be an ongoing component of an SME development project.

An institution that helps entrepreneurs prepare a financing proposal and then helps them operate their business in a manner that ensures financing repayment/increasing share values will make a significant contribution toward stimulating more new SMEs and the growth of existing enterprises. Therefore, there is a strong need for USAID to sponsor an activity to help develop and package proposals and business plans for entrepreneurs seeking financing. This could be accomplished via training support and mentoring for local entities interested in providing this service, possibly modeled after USAID-supported training provided to loan officers of the Africa Development Bank's (AfDB) new private sector development unit. Donor-provided special funds to help SMEs apply for equity investment and to develop local business services capacity represents a partially integrated approach to SME development.

7.3 ASSOCIATION DEVELOPMENT

Past problems with government control of cooperatives makes it difficult to organize producer-based associations. Also, members of producer-based associations tend to want to focus on production and not to bother with processing, marketing, or other non-production functions. The key to success for all associations is the professionalism and quality of management, and the competitiveness of members. Therefore, leadership and financial *training* are very important to the success of association management.

SME exporters find it very difficult to gather the technical and market information needed for successful development of NTAEs; grouping themselves into associations makes this much easier. However, the ability of producer-based associations to provide members with the needed production, and especially postharvest, services will likely depend on *outside* support.

Donor support for *integrated* producer/packer/exporter associations seems to be a viable way to overcome the tendency for producers to focus only on production-related functions. Donor support should also help exporters gather the technical and market information needed for successful development of NTAEs, and should provide management and financial training for association leadership.

A well-organized and well-managed multi-association structure, with an umbrella association as its apex unit, can improve the performance of the associations and significantly enhance association development project leveraging.

New associations must achieve a detailed understanding of members' priority needs and develop highly efficient programs to serve the *highest* priority needs. Because of limited resources, new associations must focus on a *few, high-positive-impact* member services. Donor support to new associations should focus on these considerations.

NTAE association group lending schemes often do not require large amounts of capital because members' export volume is usually quite modest. Proper cash management techniques will help reduce the amount of working capital required. Therefore, association-sponsored and donor- supported group lending is a viable way to overcome members' financing constraints. However, the sponsoring donor must help the association management to develop and administer the group lending program, especially follow-up on borrowers.

7.4 FINANCIAL SERVICES

Lack of entrepreneurial experience, a shortage of equity, poor bookkeeping practices, and the lack of know-how to develop satisfactory financing proposals and the associated business plans are major constraints to financing agribusiness SME ventures, and limit the ability of donors to disburse development finance to these firms.

Because equity/collateral limitations are the major *initial* constraint to both micro and SME formation in emerging private sectors, projects that allow sweat equity (equity credit for labor) and in-kind contributions to equity by entrepreneurs will help offset this constraint, although they cannot eliminate it.

Difficulties in identifying investable projects, not the lack of finance, is the major constraint to donor-supported financial services projects focused on SME development; that is, the lack of investable ideas is a greater constraint than the lack of available financing.

Loan officer knowledge of the geographic area, the references of the borrower, and the business being financed is essential for financing provided on bases other than collateral. Lending on criteria other than collateral also requires specially trained loan officers, preferably with knowledge of the market their customers want to serve. This neighborhood networking approach for screening small loan applicants works, and can be especially effective in rural areas where everybody knows everybody. Checking the veracity of project proposals, especially as related to market share assumptions and the marketing plan, and hands-on mentoring and oversight management *after* financing are critical to the success of an investment, particularly in rural areas and in agribusiness.

Financial development projects that require the borrower to have a low debt-to-equity ratio will find few investable projects available in private sectors that are in the early stages of development. Flexible instruments such as convertible debt and income notes, along with loan officers who have a good understanding of the applicant's business, will help reduce this constraint.

Financial services organizations working with *larger* borrowers (e.g., APDF) can afford to carry out more complete feasibility studies, have less difficulty sourcing funds, and incur lower transaction costs as a percentage of financing value. Therefore, the management team of a financial services entity needs to be involved with either a *large* single fund/institution or several funds/institutions to spread the high cost of their services and keep the cost from being a burden on any one project. Given the cost of high-quality fund managers, a regional fund (debt and equity) would enable better leveraging of management.

The lack of debt financing and entrepreneur equity are both important constraints to the success of *venture capital* projects. Other important factors that limit a venture capital fund's ability to invest its available resources include entrepreneur lack of familiarity and comfort with the concept of equity capital, inadequate recordkeeping practices, the lack of buyers for shares of firms the fund has invested in, and restrictions the fund may have on client size, business sector, or owner nationality. *High-quality* management and support from a donor who is *experienced* with business development and finance in developing countries will make a major contribution to the success of a venture capital project. New venture capital projects should investigate the experience of other USAID venture capital projects, especially in SSA, before finalizing a design.

Financial services alone will not stimulate economic development as much as *integrated* financial, managerial, and technical assistance. Therefore, while reasonable availability of funds will stimulate micro and SME *formation*, TA and management assistance will be needed for them to be successful.

For optimal effectiveness and efficiency as well as for making the most rapid progress, *existing*, well-managed financial intermediaries with a good track record (when they are available) should be used for new donor-supported private sector development programs.

Cooperation among donor-supported debt providers, equity providers, and TA projects with similar objectives would prove beneficial and should be pursued by donor-supported financial services projects.

Keeping smallholder transaction costs low and repayment ratios high is difficult even for well-managed institutions. Group lending via intermediaries (such as NGOs) appears to be one way to control these costs. The optimal group size for group lending is 10 to 25 members. Group lending can also help overcome collateral problems based on communal land ownership. Community-based group lending programs are an alternative to local traders' control of commerce, cash flow, and informal lending (i.e., where the local trader extends credit for daily necessities and is repaid from the farmer's harvest). But, in societies evolving from socialist models, such group lending projects will be successful only if accompanied by borrower education and training.

7.5 MONITORING AND EVALUATION

The more effectively managed the organization the more specific its M&E programs will be.

Separating an agricultural bank's development activities from its commercial activities will enable better monitoring and evaluation of the development activities. In addition, it will be easier for donors to work with the new development-focused entity since they will both have very similar objectives.

The M&E used by most local PVOs involved in MSE financing projects is informal, but includes the number of proposals screened, number recommended for funding, amount of funding approved, the success of funded enterprises, and measures of the continued satisfaction of and support by donors.

Donors other than USAID usually do not use macro measurements to monitor and evaluate the impact of their activities or projects.

Implications

M&E for agribusiness development projects must be focused *predominantly* on commercial measurements for *both* the development entity and its clients.

M&E for TA and business consultancy development projects should include the number of managers trained, number of consultants trained and certified, the extent to which training and consulting fees cover actual costs, the success of clients' businesses or associations, the increase in the number of a client's employees, and the amount of financing sourced for clients.

M&E for donor-supported venture capital funds should be based on financial performance of the fund and its investments as well as on the number of new investments assessed. In the long term, the ability to sell investments at an acceptable price is also important.

Group lending project M&E considerations should include unit transaction costs, the repayment rate, the sustainability of the credit entity, growth in the capital base of entities, and the savings rate of the group's members/clients.

7.6 GENERAL RECOMMENDATIONS

A formal and *ongoing* SSA-wide information exchange should be established on agribusiness development lessons learned and on the implications for USAID project/activity design and development.

The Tobacco Development Trust in Zimbabwe is a good model of cooperation between commercial farmers, communal farmers, and the government, and merits further assessment.

Effective staffing is absolutely essential to a project's success. Professional management and a strong interest in localization of most operating positions will enable agribusiness projects to get off to a solid start. Hiring higher level counterpart and local staffing first will enable more local input into design refinements and lower level staff selection. Africans from other countries may be able to supplement the supply of local agribusiness managers while locals are trained and gain more experience.

Improvements in government industrial policies can be best accomplished with significant input from the private sector, especially when a country is evolving from a parastatal-based economy.

7.7 ISSUES DESERVING FURTHER STUDY

How can the success, future prospects, and specific agreements of apparently functional outgrower and subcontractor schemes (e.g., in the Arusha/Moshi area) be further assessed?

Why do Tanzanian cashew producers receive a much higher portion of the export value per kilogram than do producers in Mozambique?

How can the success of CARE's high-potential and very innovative "village trader" project in Zimbabwe be best monitored and evaluated by USAID?

8. Opportunities for High-Impact Research and Analysis

Based on the results of the fieldwork and secondary research as well as on the analysis completed for the *Innovative Approaches* activity, there are several topics that represent opportunities for high-impact research in support of agribusiness development. Therefore, follow-up applied research is recommend on the topics listed below. The topics are presented in the order of their estimated potential for positive impact on USAID agribusiness development programs, as viewed by the participants in the *Innovative Approaches* activity.

8.1 COMPARATIVE ASSESSMENT OF AGRIBUSINESS OPERATING LINKAGE OPPORTUNITIES

One of the more important *Innovative Approaches* findings is that very substantial opportunities exist for enhancing the impact and return on resources of USAID private sector and agribusiness development projects through the development and sustenance of effective operating linkages. Examples of such linkages include the following:

- Subcontracting between large agribusiness firms and SMEs
- Outgrower arrangements between exporters and/or domestic processors and producers
- Mentoring by managers of large agribusiness firms with entrepreneurs from agribusiness SMEs
- Vertically integrated agribusiness associations
- Extension/R&D - private sector - donors cooperative project implementation

Questions to be addressed include the following:

How can the potential be optimized for outgrower/contract grower schemes on the model of the Silk and Vanilla projects in Uganda, schemes that have successfully reached out to both small farmers and women? What are the specific circumstances and methods for developing sustainable outgrower schemes, especially for specialty NTAEs?

What are the advantages and disadvantages of a vertically integrated (producers + processors + exporters + service providers in a given subsector) association and under what circumstances is it the optimal approach to subsector development?

How can the current and anticipated skill needs of agribusiness be communicated to local agricultural and business schools and how can private sector leaders play a more active role in curriculum development and teaching?

This activity would assess the results, opportunities, challenges, and trends associated with project and business operations linkages. The deliverable would be a report that describes the highest potential impact linkages, the specific circumstances where they are most applicable, and the recommended approaches for establishing and sustaining the linkages. The research would be based on private sector development linkages, but the suggested applications would be focused on agribusiness development.

8.2 SUCCESS STORIES IN SSA AGRIBUSINESS DEVELOPMENT

There seems to be a lack of appreciation by USAID management, and especially USAID sponsors, of the benefits that can be derived from agribusiness development. One reason for this may be the lack of well documented and presented descriptions of the results of USAID agribusiness projects and activities.

Therefore, this activity would develop special presentations on the most significant benefits of USAID-supported agribusiness activities and projects and package them for both internal USAID use and for use as public relations (external) documents. The analysis of these projects would be objective but would focus on the direct and indirect benefits. For the internal presentation an input/output assessment would be included that would assess the actual and potential comparative return-on-resources from agribusiness versus other types of development projects.

The methodology would involve reviewing project assessments/evaluations, analyzing the projects profiled in the *Innovative Approaches* activity from a different (most positive results) perspective, and discussions with agribusiness project managers in Washington and at the Missions.

8.3 ASSESSMENT OF THE COMPARATIVE IMPACT OF INTEGRATED VERSUS NON-INTEGRATED AGRIBUSINESS DEVELOPMENT SERVICES, WITH RECOMMENDATIONS FOR AN OPTIMAL APPROACH

One of the strongest recommendations of the *Innovative Approaches* activity is that agribusiness development services should be offered in a highly integrated, one-stop-shopping format. This proposition needs further support and development. Therefore a more detailed, focused assessment of the strengths and weaknesses, successes and shortcomings, and comparative impact and return on resources of integrated versus non-integrated private sector development services is called for.

This analysis would be accomplished by performing a detailed review of partially integrated versus single service projects with a concentration on impact and benefit/cost analysis. The focus of this activity would be on agribusiness development projects but would include any private sector development activity, especially those focused on SMEs. The geographic scope of the secondary, Washington-based, and telephone research portion of the study would be global. The primary research would be focused on SSA. The *Innovative Approaches* entity profiles provide a useful starting point for this research.

The deliverable for this activity would be a well-documented report on the merits of a fully integrated versus a single service or multiservice (but less than full service) approach to agribusiness development, and recommendations on the optimal design of a high-impact project that yields a high return on resources.

8.4 TRENDS AND PROJECTIONS IN THE EU MARKET FOR NTAES FROM SSA

As USAID and other donor investments in SSA horticultural export projects have proliferated, how have international markets, particularly in the EU, changed and how will they change in the near future? More important, how can SSA exporters optimize their NTAE plans, and therefore success, in the next three to five years, based on projected market requirements, the emergence of tough competition from other developing countries, and a perceived saturation of key markets? In answering these questions, it is necessary to examine the depth, magnitude, and nature of demand for selected flowers and off-season fruits and vegetables in the EU and project market opportunities and threats. This would be based in part on examination of trends in trade prices, market channels, volumes, and market shares by major EU importing country. More important, the research would require in-depth, structured interviews with a sample of major EU importers, where expert judgments would be sought. Such an exercise could be broadened to include other commodities, such as tropical products, spices, essential oils, and other NTAEs. If this is found to be of significant value to SSA Missions it could become an annual survey of key EU importers.

In agribusiness *export promotion* programs, donors and implementing agents require periodic feedback and input from key destination country importers. This can be done through the above surveys of selected importers in target high-income and regional markets. These surveys will emphasize factors that are critical to exporter success, such as the quality and reliability of agricultural product shipments, the perceived reliability of various countries' exporters, their responsiveness to importers' desires and feedback, and how the products of particular exporting countries in SSA compare to those of key competitors, particularly those in North Africa, Asia, and LAC.

Importer surveys could be carried out most effectively by a centrally funded project such as AMIS II. Obtaining core or Africa Bureau support would be necessary, rather than trying to raise funding through the buy-in contributions of numerous USAID Missions, which would be difficult and time-consuming to coordinate.

The basic output for such a project would include:

- Forward looking bases of competition in the EU market for selected SSA NTAE
- Comparative competitive assessment by exporting country - using the basis of competition
- Important EU market and general marketing conditions and trends (including free trade agreements) and the implications for SSA exporters
- Resultant threats to SSA NTAE exporters
- Resultant opportunities for NTAE exporters
- SSA NTAE export strategies to overcome the threats and capitalize on the opportunities in the EU market

8.5 OPPORTUNITIES FOR LEVERAGING SCARCE USAID AGRIBUSINESS DEVELOPMENT RESOURCES

USAID's resources are becoming increasingly scarce and therefore USAID must leverage its limited funds to achieve optimal private sector and agribusiness development project results. Based on the findings of the *Innovative Approaches* activity, one of the best ways to accomplish this is to include other entities in the design of USAID-led projects. This will enable USAID to act as a catalyst, drawing other resources into projects in areas it wants to develop. The resulting synergy will produce a much more effective result than an independent approach.

Examples of such leveraging include: multi donor projects, private sector alliances, cooperation with government entities (including universities and development banks), and linkages with PVOs/NGOs.

Therefore, this activity would assess the results of a broad range of leveraging situations used USAID *or by other donors;* analyze leveraging opportunities, challenges, and benefits with potential partners; and recommend the leveraging opportunities that have the best potential to significantly increase the impact of USAID private sector and agribusiness development projects. This activity would focus on project design considerations.

8.6 ASSESSMENT OF THE NICHE MARKETS FOR SSA SPECIALTY NTAES

One of the lessons learned from the *Innovative Approaches* activity is that it is quite difficult for SMEs to participate in NTAEs, particularly via direct exporting (versus sales through a larger exporter). The Vanilla and Silk projects in Uganda and the preliminary success of specialty export efforts in Madagascar and Arusha, Tanzania indicate that there may be significant potential in niche or specialty products produced, processed, and possibly marketed by SMEs and/or SME associations. Examples of these specialty crops/products include seasonings and spices, specialty oils, organic vegetables, and dried chilies.

Therefore, an activity with considerable merit would be to investigate in detail the success and conditions for sustainability of specialty or niche market businesses involving small- and medium-size producers and SME processor/exporters.

8.7 OPTIMAL DESIGN FOR AN ONGOING SYSTEM TO GATHER AND REPORT THE LESSONS LEARNED AND IMPLICATIONS OF AGRIBUSINESS DEVELOPMENT PROJECTS IN SSA

Innovative Approaches researchers were surprised to find that USAID agribusiness project managers had minimal information on the success and shortcomings of similar donor-supported projects. They therefore were unable to incorporate lessons learned and implications from these similar projects into the design and implementation of their projects. This lack of familiarity with similar projects is especially true for non-USAID projects.

USAID tends to monitor and evaluate only subsector-level aggregates (overall trade statistics) rather than the business performance of firms assisted by a project. Positive trends in export volume and value data are one set of performance indicators, but they may reflect other factors, such as macroeconomic changes (in exchange rates, interest rates) or favorable international market developments.

In-depth monitoring of the business performance of assisted firms is usually resource intensive. Therefore, rather than monitoring large numbers of client firms, it is advisable for experienced senior analysts, preferably those with international business experience, to conduct a limited number of case studies, using multiple visits (at least annual visits). The cases need to be selected to reflect the *range* of assisted firm sizes, commodity subsectors, and firm requirements for assistance or project-provided services.

The *Innovative Approaches* activity has begun the process by doing case studies on firms and associations assisted by donor projects. This type of M&E needs to be continued for USAID agribusiness projects in SSA and elsewhere. By providing such *regular* feedback to Missions that are implementing agribusiness development projects, and by synthesizing key findings and lessons learned across countries, industries/subsectors, and project types, AMIS II or another contractor could help USAID the quality and effectiveness of the design, implementation, and monitoring and evaluation of USAID's agribusiness portfolio in SSA.

A methodology needs to be developed to generate an *ongoing* flow of *useful* agribusiness development project/activity analysis, lessons learned, and implications. One way to implement this is to establish an agribusiness development bulletin board on USAID E-mail where the lessons learned and the implications from one USAID (or other donor's) project are reviewed and discussed on-line monthly. An entity such as AMIS II could (a) profile the project, in cooperation with the implementing entity, (b) suggest design and implementation lessons learned and implications, and (c) ask for comments from USAID managers interested in agribusiness development.

8.8 METHODOLOGY FOR IDENTIFYING THE HIGHEST POTENTIAL AGRIBUSINESS SUBSECTORS

Another recommendation derived from the *Innovative Approaches* activity is that most agribusiness development projects identify the highest opportunity subsectors in a given country or region and focus project resources on those subsectors. A high-opportunity subsector focus will result in the highest yield on scarce resources. The challenge is in how to identify the highest opportunity subsectors. This is a function of the comparative assessment of (a) markets, (b) competition, (c) natural and human resources, (d) level of base technology and know-how, (e) support services and institutions, and (f) other factors. A methodology needs to be developed to help project planners and managers identify the highest opportunity agribusiness subsectors. This methodology would draw upon Rapid Appraisal techniques, market research, comparative advantage assessment, and polling of current and potential participants. Forecasting technology would be used to anticipate the comparative benefits of promoting the various subsectors.

8.9 OPTIMAL METHODS OF INCREASING THE INVOLVEMENT OF THE PRIVATE SECTOR IN DONOR-SUPPORTED AGRIBUSINESS DEVELOPMENT PROJECTS

Private sector agribusinesses' contributions to the design and implementation of donor-supported agribusiness projects can significantly increase the benefits of such projects. Successful agribusiness firms can help enhance agribusiness projects, and mechanisms should be developed to facilitate their involvement.

This activity would therefore assess where, when, and how private sector agribusiness managers have been involved in agribusiness projects, how that participation has been most successfully facilitated, and how agribusinesses can be most effectively involved in project design and implementation.

8.10 OTHER RESEARCH OPPORTUNITIES

The following are lower impact potential activities.

8.10.1 Comparative Impact of Providing Support to MSEs versus MLEs

There is little evidence that microenterprises are able to export to high-income markets. Medium- and large-size firms have the scale, sophistication, knowledge, and access to key support services to expand exports of NTAEs and other agribusiness products. An important programmatic issue is whether USAID should support only micro and small enterprises to expand agribusiness exports; or should USAID seek a balance that stimulates broad-based participation, and at the same time helps develop medium and large firms who have a realistic opportunity to have a positive impact on total agribusiness sector growth and/or NTAEs. These firms could then function as models and linkage partners for SMEs.

What is the best and most efficient way to measure the full social and economic impact of support to medium- and large-scale enterprises? If economic development objectives are to increase broad-based income, employment, and foreign exchange generation, this may be most efficiently achieved through support to medium and large firms. There is a need to address criticism of such assistance to larger firms, however, which is perceived as providing assistance to those who do not really need it. To respond to this criticism would involve determining the comparative primary and secondary impact of support for medium and large versus micro and small enterprises, including a benefit/cost analysis.

Developing detailed case study material could prove quite useful in this respect. Case studies would examine instances where:

1. Microenterprises act as subcontractors to exporting SMEs, providing inputs, intermediate (semiprocessed) goods, or selected, labor-intensive services (e.g., rural assembly of produce).
2. Microenterprises are able to export NTAEs to niche markets, most likely by consolidating shipments through an intermediary organization such as a PVO/NGO or exporter willing to play a coordinating role.
3. Microenterprises provide services, unrelated to agribusiness exports, to SMEs, such as uniform cleaning, waste removal, building maintenance, operating a canteen, courier/messenger services, and such.

These case studies could help clarify the comparative role for MSEs versus MLEs in agribusiness development.

8.10.2 Assessment of the Role of Agribusiness in Stimulating Agricultural Production and Enhancing Food Security

The potential of promoting agribusiness as a means to stimulate agricultural production, enhance food security and improve the cost, variety and convenience of consumer and beverage products is not sufficiently understood by donors. This activity would develop a clear rationale for agribusiness development and demonstrate its “vital link” role in the food chain.

8.10.3 Role of Market Information in Agribusiness Development

How effective is most general market information? Large firms say they do not need or use it, and small firms say they do not know how to use it. This research would develop effective ways to measure the use of market information versus the cost of providing it, especially by type of information and type of user.

8.10.4 Analysis of the Most Relevant Agribusiness Interventions for the Various Stages of Economic Development

Both trade associations and FADCs received heavy emphasis as high-potential interventions in this activity. Useful applied research could indicate the *development conditions* under which one or the other is the preferred (or leading) intervention by a donor. This exercise could be part of a larger research activity on the **sequencing, coordination, and interplay of several agribusiness promotion interventions in a developing country or transitional economy**, including food distribution system development, NTAE promotion programs, and research-based lobbying on policy and regulatory measures. The key question is: Which interventions are preferable under which level of development conditions?

8.10.5 Role of Commercial Associations in Agribusiness Development

Can commercial associations be used to improve input supply, replacing outmoded state or cooperative channels? This activity would conduct an investigation into how commercial associations can be developed and supported to function as middlemen between MSE producers and exporters, thus enabling some economies of scale and balancing negotiating power.

8. Opportunities for High-Impact Research and Analysis

Based on the results of the fieldwork and secondary research as well as on the analysis completed for the *Innovative Approaches* activity, there are several topics that represent opportunities for high-impact research in support of agribusiness development. Therefore, follow-up applied research is recommend on the topics listed below. The topics are presented in the order of their estimated potential for positive impact on USAID agribusiness development programs, as viewed by the participants in the *Innovative Approaches* activity.

8.1 COMPARATIVE ASSESSMENT OF AGRIBUSINESS OPERATING LINKAGE OPPORTUNITIES

One of the more important *Innovative Approaches* findings is that very substantial opportunities exist for enhancing the impact and return on resources of USAID private sector and agribusiness development projects through the development and sustenance of effective operating linkages. Examples of such linkages include the following:

- Subcontracting between large agribusiness firms and SMEs
- Outgrower arrangements between exporters and/or domestic processors and producers
- Mentoring by managers of large agribusiness firms with entrepreneurs from agribusiness SMEs
- Vertically integrated agribusiness associations
- Extension/R&D - private sector - donors cooperative project implementation

Questions to be addressed include the following:

How can the potential be optimized for outgrower/contract grower schemes on the model of the Silk and Vanilla projects in Uganda, schemes that have successfully reached out to both small farmers and women? What are the specific circumstances and methods for developing sustainable outgrower schemes, especially for specialty NTAEs?

What are the advantages and disadvantages of a vertically integrated (producers + processors + exporters + service providers in a given subsector) association and under what circumstances is it the optimal approach to subsector development?

How can the current and anticipated skill needs of agribusiness be communicated to local agricultural and business schools and how can private sector leaders play a more active role in curriculum development and teaching?

This activity would assess the results, opportunities, challenges, and trends associated with project and business operations linkages. The deliverable would be a report that describes the highest potential impact linkages, the specific circumstances where they are most applicable, and the recommended approaches for establishing and sustaining the linkages. The research would be based on private sector development linkages, but the suggested applications would be focused on agribusiness development.

8.2 SUCCESS STORIES IN SSA AGRIBUSINESS DEVELOPMENT

There seems to be a lack of appreciation by USAID management, and especially USAID sponsors, of the benefits that can be derived from agribusiness development. One reason for this may be the lack of well documented and presented descriptions of the results of USAID agribusiness projects and activities.

Therefore, this activity would develop special presentations on the most significant benefits of USAID-supported agribusiness activities and projects and package them for both internal USAID use and for use as public relations (external) documents. The analysis of these projects would be objective but would focus on the direct and indirect benefits. For the internal presentation an input/output assessment would be included that would assess the actual and potential comparative return-on-resources from agribusiness versus other types of development projects.

The methodology would involve reviewing project assessments/evaluations, analyzing the projects profiled in the *Innovative Approaches* activity from a different (most positive results) perspective, and discussions with agribusiness project managers in Washington and at the Missions.

8.3 ASSESSMENT OF THE COMPARATIVE IMPACT OF INTEGRATED VERSUS NON-INTEGRATED AGRIBUSINESS DEVELOPMENT SERVICES, WITH RECOMMENDATIONS FOR AN OPTIMAL APPROACH

One of the strongest recommendations of the *Innovative Approaches* activity is that agribusiness development services should be offered in a highly integrated, one-stop-shopping format. This proposition needs further support and development. Therefore a more detailed, focused assessment of the strengths and weaknesses, successes and shortcomings, and comparative impact and return on resources of integrated versus non-integrated private sector development services is called for.

This analysis would be accomplished by performing a detailed review of partially integrated versus single service projects with a concentration on impact and benefit/cost analysis. The focus of this activity would be on agribusiness development projects but would include any private sector development activity, especially those focused on SMEs. The geographic scope of the secondary, Washington-based, and telephone research portion of the study would be global. The primary research would be focused on SSA. The *Innovative Approaches* entity profiles provide a useful starting point for this research.

The deliverable for this activity would be a well-documented report on the merits of a fully integrated versus a single service or multiservice (but less than full service) approach to agribusiness development, and recommendations on the optimal design of a high-impact project that yields a high return on resources.

8.4 TRENDS AND PROJECTIONS IN THE EU MARKET FOR NTAES FROM SSA

As USAID and other donor investments in SSA horticultural export projects have proliferated, how have international markets, particularly in the EU, changed and how will they change in the near future? More important, how can SSA exporters optimize their NTAE plans, and therefore success, in the next three to five years, based on projected market requirements, the emergence of tough competition from other developing countries, and a perceived saturation of key markets? In answering these questions, it is necessary to examine the depth, magnitude, and nature of demand for selected flowers and off-season fruits and vegetables in the EU and project market opportunities and threats. This would be based in part on examination of trends in trade prices, market channels, volumes, and market shares by major EU importing country. More important, the research would require in-depth, structured interviews with a sample of major EU importers, where expert judgments would be sought. Such an exercise could be broadened to include other commodities, such as tropical products, spices, essential oils, and other NTAEs. If this is found to be of significant value to SSA Missions it could become an annual survey of key EU importers.

In agribusiness *export promotion* programs, donors and implementing agents require periodic feedback and input from key destination country importers. This can be done through the above surveys of selected importers in target high-income and regional markets. These surveys will emphasize factors that are critical to exporter success, such as the quality and reliability of agricultural product shipments, the perceived reliability of various countries' exporters, their responsiveness to importers' desires and feedback, and how the products of particular exporting countries in SSA compare to those of key competitors, particularly those in North Africa, Asia, and LAC.

Importer surveys could be carried out most effectively by a centrally funded project such as AMIS II. Obtaining core or Africa Bureau support would be necessary, rather than trying to raise funding through the buy-in contributions of numerous USAID Missions, which would be difficult and time-consuming to coordinate.

The basic output for such a project would include:

- Forward looking bases of competition in the EU market for selected SSA NTAE
- Comparative competitive assessment by exporting country - using the basis of competition
- Important EU market and general marketing conditions and trends (including free trade agreements) and the implications for SSA exporters
- Resultant threats to SSA NTAE exporters
- Resultant opportunities for NTAE exporters
- SSA NTAE export strategies to overcome the threats and capitalize on the opportunities in the EU market

8.5 OPPORTUNITIES FOR LEVERAGING SCARCE USAID AGRIBUSINESS DEVELOPMENT RESOURCES

USAID's resources are becoming increasingly scarce and therefore USAID must leverage its limited funds to achieve optimal private sector and agribusiness development project results. Based on the findings of the *Innovative Approaches* activity, one of the best ways to accomplish this is to include other entities in the design of USAID-led projects. This will enable USAID to act as a catalyst, drawing other resources into projects in areas it wants to develop. The resulting synergy will produce a much more effective result than an independent approach.

Examples of such leveraging include: multi donor projects, private sector alliances, cooperation with government entities (including universities and development banks), and linkages with PVOs/NGOs.

Therefore, this activity would assess the results of a broad range of leveraging situations used USAID *or by other donors;* analyze leveraging opportunities, challenges, and benefits with potential partners; and recommend the leveraging opportunities that have the best potential to significantly increase the impact of USAID private sector and agribusiness development projects. This activity would focus on project design considerations.

8.6 ASSESSMENT OF THE NICHE MARKETS FOR SSA SPECIALTY NTAES

One of the lessons learned from the *Innovative Approaches* activity is that it is quite difficult for SMEs to participate in NTAEs, particularly via direct exporting (versus sales through a larger exporter). The Vanilla and Silk projects in Uganda and the preliminary success of specialty export efforts in Madagascar and Arusha, Tanzania indicate that there may be significant potential in niche or specialty products produced, processed, and possibly marketed by SMEs and/or SME associations. Examples of these specialty crops/products include seasonings and spices, specialty oils, organic vegetables, and dried chilies.

Therefore, an activity with considerable merit would be to investigate in detail the success and conditions for sustainability of specialty or niche market businesses involving small- and medium-size producers and SME processor/exporters.

8.7 OPTIMAL DESIGN FOR AN ONGOING SYSTEM TO GATHER AND REPORT THE LESSONS LEARNED AND IMPLICATIONS OF AGRIBUSINESS DEVELOPMENT PROJECTS IN SSA

Innovative Approaches researchers were surprised to find that USAID agribusiness project managers had minimal information on the success and shortcomings of similar donor-supported projects. They therefore were unable to incorporate lessons learned and implications from these similar projects into the design and implementation of their projects. This lack of familiarity with similar projects is especially true for non-USAID projects.

USAID tends to monitor and evaluate only subsector-level aggregates (overall trade statistics) rather than the business performance of firms assisted by a project. Positive trends in export volume and value data are one set of performance indicators, but they may reflect other factors, such as macroeconomic changes (in exchange rates, interest rates) or favorable international market developments.

In-depth monitoring of the business performance of assisted firms is usually resource intensive. Therefore, rather than monitoring large numbers of client firms, it is advisable for experienced senior analysts, preferably those with international business experience, to conduct a limited number of case studies, using multiple visits (at least annual visits). The cases need to be selected to reflect the *range* of assisted firm sizes, commodity subsectors, and firm requirements for assistance or project-provided services.

The *Innovative Approaches* activity has begun the process by doing case studies on firms and associations assisted by donor projects. This type of M&E needs to be continued for USAID agribusiness projects in SSA and elsewhere. By providing such *regular* feedback to Missions that are implementing agribusiness development projects, and by synthesizing key findings and lessons learned across countries, industries/subsectors, and project types, AMIS II or another contractor could help USAID the quality and effectiveness of the design, implementation, and monitoring and evaluation of USAID's agribusiness portfolio in SSA.

A methodology needs to be developed to generate an *ongoing* flow of *useful* agribusiness development project/activity analysis, lessons learned, and implications. One way to implement this is to establish an agribusiness development bulletin board on USAID E-mail where the lessons learned and the implications from one USAID (or other donor's) project are reviewed and discussed on-line monthly. An entity such as AMIS II could (a) profile the project, in cooperation with the implementing entity, (b) suggest design and implementation lessons learned and implications, and (c) ask for comments from USAID managers interested in agribusiness development.

8.8 METHODOLOGY FOR IDENTIFYING THE HIGHEST POTENTIAL AGRIBUSINESS SUBSECTORS

Another recommendation derived from the *Innovative Approaches* activity is that most agribusiness development projects identify the highest opportunity subsectors in a given country or region and focus project resources on those subsectors. A high-opportunity subsector focus will result in the highest yield on scarce resources. The challenge is in how to identify the highest opportunity subsectors. This is a function of the comparative assessment of (a) markets, (b) competition, (c) natural and human resources, (d) level of base technology and know-how, (e) support services and institutions, and (f) other factors. A methodology needs to be developed to help project planners and managers identify the highest opportunity agribusiness subsectors. This methodology would draw upon Rapid Appraisal techniques, market research, comparative advantage assessment, and polling of current and potential participants. Forecasting technology would be used to anticipate the comparative benefits of promoting the various subsectors.

8.9 OPTIMAL METHODS OF INCREASING THE INVOLVEMENT OF THE PRIVATE SECTOR IN DONOR-SUPPORTED AGRIBUSINESS DEVELOPMENT PROJECTS

Private sector agribusinesses' contributions to the design and implementation of donor-supported agribusiness projects can significantly increase the benefits of such projects. Successful agribusiness firms can help enhance agribusiness projects, and mechanisms should be developed to facilitate their involvement.

This activity would therefore assess where, when, and how private sector agribusiness managers have been involved in agribusiness projects, how that participation has been most successfully facilitated, and how agribusinesses can be most effectively involved in project design and implementation.

8.10 OTHER RESEARCH OPPORTUNITIES

The following are lower impact potential activities.

8.10.1 Comparative Impact of Providing Support to MSEs versus MLEs

There is little evidence that microenterprises are able to export to high-income markets. Medium- and large-size firms have the scale, sophistication, knowledge, and access to key support services to expand exports of NTAEs and other agribusiness products. An important programmatic issue is whether USAID should support only micro and small enterprises to expand agribusiness exports; or should USAID seek a balance that stimulates broad-based participation, and at the same time helps develop medium and large firms who have a realistic opportunity to have a positive impact on total agribusiness sector growth and/or NTAEs. These firms could then function as models and linkage partners for SMEs.

What is the best and most efficient way to measure the full social and economic impact of support to medium- and large-scale enterprises? If economic development objectives are to increase broad-based income, employment, and foreign exchange generation, this may be most efficiently achieved through support to medium and large firms. There is a need to address criticism of such assistance to larger firms, however, which is perceived as providing assistance to those who do not really need it. To respond to this criticism would involve determining the comparative primary and secondary impact of support for medium and large versus micro and small enterprises, including a benefit/cost analysis.

Developing detailed case study material could prove quite useful in this respect. Case studies would examine instances where:

1. Microenterprises act as subcontractors to exporting SMEs, providing inputs, intermediate (semiprocessed) goods, or selected, labor-intensive services (e.g., rural assembly of produce).
2. Microenterprises are able to export NTAEs to niche markets, most likely by consolidating shipments through an intermediary organization such as a PVO/NGO or exporter willing to play a coordinating role.
3. Microenterprises provide services, unrelated to agribusiness exports, to SMEs, such as uniform cleaning, waste removal, building maintenance, operating a canteen, courier/messenger services, and such.

These case studies could help clarify the comparative role for MSEs versus MLEs in agribusiness development.

8.10.2 Assessment of the Role of Agribusiness in Stimulating Agricultural Production and Enhancing Food Security

The potential of promoting agribusiness as a means to stimulate agricultural production, enhance food security and improve the cost, variety and convenience of consumer and beverage products is not sufficiently understood by donors. This activity would develop a clear rationale for agribusiness development and demonstrate its “vital link” role in the food chain.

8.10.3 Role of Market Information in Agribusiness Development

How effective is most general market information? Large firms say they do not need or use it, and small firms say they do not know how to use it. This research would develop effective ways to measure the use of market information versus the cost of providing it, especially by type of information and type of user.

8.10.4 Analysis of the Most Relevant Agribusiness Interventions for the Various Stages of Economic Development

Both trade associations and FADCs received heavy emphasis as high-potential interventions in this activity. Useful applied research could indicate the *development conditions* under which one or the other is the preferred (or leading) intervention by a donor. This exercise could be part of a larger research activity on the **sequencing, coordination, and interplay of several agribusiness promotion interventions in a developing country or transitional economy**, including food distribution system development, NTAE promotion programs, and research-based lobbying on policy and regulatory measures. The key question is: Which interventions are preferable under which level of development conditions?

8.10.5 Role of Commercial Associations in Agribusiness Development

Can commercial associations be used to improve input supply, replacing outmoded state or cooperative channels? This activity would conduct an investigation into how commercial associations can be developed and supported to function as middlemen between MSE producers and exporters, thus enabling some economies of scale and balancing negotiating power.

Notes

[1] Statement of Work: Monitoring and Impact Assessment of Innovative Approaches to Agricultural Marketing Systems Development.

[2] There are some NGOs to which individual members of the SAEDF board have strong ties (e.g., AfriCare in Tanzania). If the local mission agrees, it might be useful for AMIS II to work with both the board member and the NGO to develop an economically and environmentally sustainable project for SAEDF consideration as well as for other USAID support.

[3] In contrast, in Ghana the Agricultural Development Bank charges 35 percent interest on loans, which compensates for inflation.

[4] This term was coined by Keith Marsden in *African Entrepreneurs: Pioneers of Development*, IFC Discussion Paper No. 9, 1990.

[5] A World Bank agribusiness advisor reported that Bank funding of shrimp promotion schemes in multiple Asian and LAC countries led to world market saturation and financial problems for many of the producing countries.

[6] This term was coined by Keith Marsden in *African Entrepreneurs: Pioneers of Development*, IFC Discussion Paper No. 9, 1990.

[7] Note that the agribusiness system cuts across what are conventionally thought of as sectors: agriculture, industry, the service sector, energy, transport, and the extractive sector (forestry products, petroleum or coal products used to fuel agroindustries, and transport systems serving agribusiness). While agriculture's (i.e., agricultural production's) share of GDP falls as national incomes rise, agribusiness' share increases for low and lower-middle income countries.

[8] The Comité régional de concertation was created in 1994 and includes horticultural trade association representatives from Mali, Senegal, Guinea, Burkina Faso, and Niger.

[9] TIP is a "partial" exception because it provided a grant to APDF to assist Ghanaian SMEs seeking to expand NTAEs to identify and access sources of finance. TIP itself does not work directly with or provide support to a financial intermediary.

[10] The interest rate ceiling of 17 percent in francophone Africa was below the inflation rate in 1994. In contrast, in Ghana, the Agricultural Development Bank charges 35 percent interest on loans, which compensates for inflation.

SD Technical Papers

Office of Sustainable Development
Bureau for Africa
U.S. Agency for International Development

The series includes the following publications:

- 1 / *Framework for Selection of Priority Research and Analysis Topics in Private Health Sector Development in Africa*
- *2 / *Proceedings of the USAID Natural Resources Management and Environmental Policy Conference: Banjul, The Gambia / January 18-22, 1994*
- *3 / *Agricultural Research in Africa: A Review of USAID Strategies and Experience*
- *4 / *Regionalization of Research in West and Central Africa: A Synthesis of Workshop Findings and Recommendations (Banjul, The Gambia. March 14-16, 1994)*
- *5 / *Developments in Potato Research in Central Africa*
- *6 / *Maize Research Impact in Africa: The Obscured Revolution / Summary Report*
- *7 / *Maize Research Impact in Africa: The Obscured Revolution / Complete Report*
- *8 / *Urban Maize Meal Consumption Patterns: Strategies for Improving Food Access for Vulnerable Households in Kenya*
- *9 / *Targeting Assistance to the Poor and Food Insecure: A Literature Review*
- 10 / *An Analysis of USAID Programs to Improve Equity in Malawi and Ghana's Education Systems*
- *11 / *Understanding Linkages among Food Availability, Access, Consumption, and Nutrition in Africa: Empirical Findings and Issues from the Literature*
- *12 / *Market-Oriented Strategies Improve Household Access to Food: Experiences from Sub-Saharan Africa*
- 13 / *Overview of USAID Basic Education Programs in Sub-Saharan Africa II*
- 14 / *Basic Education in Africa: USAID'sApproach to Sustainable Reform in the 1990s*
- 15 / *Community-Based Primary Education: Lessons Learned from the Basic Education Expansion Project (BEEP) in Mali*
- 16 / *Budgetary Impact of Non-Project Assistance in the Education Sector: A Review of Benin, Ghana, Guinea, and Malawi*
- *17 / *GIS Technology Transfer: An Ecological Approach—Final Report*
- *18 / *Environmental Guidelines for Small-Scale Activities in Africa: Environmentally Sound Design for Planning and Implementing Humanitarian and Development Activities*
- *19 / *Comparative Analysis of Economic Reform and Structural Adjustment Programs in Eastern Africa*
- *20 / *Comparative Analysis of Economic Reform and Structural Adjustment Programs in Eastern Africa / Annex*
- *21 / *Comparative Transportation Cost in East Africa: Executive Summary*
- *22 / *Comparative Transportation Cost in East Africa: Final Report*
- *23 / *Comparative Analysis of Structural Adjustment Programs in Southern Africa: With Emphasis on Agriculture and Trade*
- *24 / *Endowments in Africa: A Discussion of Issues for Using Alternative Funding Mechanisms to Support Agricultural and Natural Resources Management Programs*
- *25 / *Effects of Market Reform on Access to Food by Low-Income Households: Evidence from Four Countries in Eastern and Southern Africa*
- *26 / *Promoting Farm Investment for Sustainable Intensification of African Agriculture*
- *27 / *Improving the Measurement and Analysis of African Agricultural Productivity: Promoting Complementarities Between Micro and Macro Data*
- *28 / *Promoting Food Security in Rwanda Through Sustainable Agricultural Productivity*
- *29 / *Methodologies for Estimating Informal Crossborder Trade in Eastern and Southern Africa*
- *30 / *A Guide to the Gender Dimension of Environment and Natural Resources Management: Based on Sample Review of USAID NRM Projects in Africa*
- *31 / *A Selected Bibliography on Gender in Environment and Natural Resources: With Emphasis on Africa*
- *32 / *Comparative Cost of Production Analysis in East Africa: Implications for Competitiveness and Comparative Advantage*
- *33 / *Analysis of Policy Reform and Structural Adjustment Programs in Malawi: With Emphasis on Agriculture and Trade*
- *34 / *Structural Adjustment and Agricultural Reform in South Africa*
- *35 / *Policy Reforms and Structural Adjustment in Zambia: The Case of Agriculture and Trade*
- *36 / *Analysis of Policy Reform and Structural Adjustment Programs in Zimbabwe: With Emphasis on Agriculture and Trade*
- 37 / *The Control of Dysentery in Africa: Overview, Recommendations, and Checklists*
- 38 / *Collaborative Programs in Primary Education, Health, and Nutrition: Report on the Proceedings of a Collaborative Meeting, Washington, D.C., May 7-8, 1996*
- *39 / *Trends in Real Food Prices in Six Sub-Saharan African Countries*
- *40 / *Cash Crop and Foodgrain Productivity in Senegal: Historical View, New Survey Evidence, and Policy Implications*

* Produced and dissemination under contract to USAID/AFR/SD by AMEX International, Inc. For copies or information, contact: Outreach Systems Assistant / AMEX International, Inc. / 1111 19th Street North / Arlington, VA 22209. Phone: 703-235-5276. Fax: 703-235-5064.

U.S. Agency for International Development
Bureau for Africa
Office of Sustainable Development
Productive Sector Growth and Environment Division
Washington, D.C. 20523-0046